BROADWAY-HALE STORES, INC.

AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEET

	February 3, 1973	January 29, 1972 Restated
Current assets		
Cash	$ 15,408,000	$ 12,611,000
Certificates of deposit	36,150,000	
Accounts receivable	127,327,000	120,458,000
Reimbursable property costs under sale and lease-back agreements	3,972,000	10,234,000
Merchandise inventories	177,254,000	149,393,000
Prepaid expenses	9,052,000	8,603,000
	369,163,000	301,299,000
Property and equipment	174,535,000	169,210,000
Investments	21,984,000	25,599,000
Total assets	**$565,682,000**	**$496,108,000**
Current liabilities		
Current installments on long term debt	$ 9,775,000	$ 13,860,000
Accounts payable and accrued expenses	80,381,000	68,295,000
Dividends payable	3,895,000	3,712,000
Current income taxes	20,281,000	7,473,000
Deferred income taxes	31,230,000	28,041,000
	145,562,000	121,381,000
Long term debt	119,558,000	95,688,000
Pensions and other long term liabilities	14,381,000	13,674,000
Equity of shareholders		
Preferred stock, $5 par value	9,923,000	10,064,000
Common stock, $5 par value	82,937,000	55,494,000
Other paid-in capital	103,308,000	129,375,000
Accumulated earnings	90,013,000	70,432,000
	286,181,000	265,365,000
Total liabilities and equity of shareholders	**$565,682,000**	**$496,108,000**

See accompanying Notes to Financial Statements

STATEMENT OF CURRENT EARNINGS

	Fifty-Three Weeks Ended Feb. 3, 1973	Fifty-Two Weeks Ended Jan. 29, 1972 Restated
Net sales	$931,049,000	$787,667,000
Costs and expenses		
Cost of goods sold	534,861,000	454,469,000
Selling, operating and administrative expenses	254,618,000	215,593,000
Taxes other than income taxes	25,460,000	21,403,000
Rentals of real property	22,293,000	16,966,000
Depreciation and amortization	13,464,000	11,732,000
Interest expense less interest income	9,432,000	9,814,000
	860,128,000	729,977,000
Earnings before income taxes	70,921,000	57,690,000
Income taxes	35,850,000	29,015,000
Net earnings	**$ 35,071,000**	**$ 28,675,000**
Per share of common stock	**$1.87**	**$1.59**
Per share of common stock assuming full dilution	**$1.74**	**$1.52**

See accompanying Notes to Financial Statements

BROADWAY-HALE STORES, INC.
AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF SHAREHOLDERS' EQUITY	Shares Issued		Par Value			
	Preferred Stock	Common Stock	Preferred Stock	Common Stock	Other Paid-In Capital	Accumulated Earnings
			Dollar Amounts in Thousands			
Balance January 30, 1971, restated	2,012,867	10,346,122	$10,064	$51,731	$100,141	$ 56,063
Net earnings						28,675
Cash dividends on common stock, \$.66⅔ per share (after giving effect to 1972 stock split)						(10,213)
Cash dividends on preferred stock, $2 per share						(4,093)
Sale of common stock		750,000		3,750	29,172	
Sale of common stock under employee stock options		2,500		12	62	
Conversion of preferred stock	(147)	164		1		
Balance January 29, 1972, restated	2,012,720	11,098,786	10,064	55,494	129,375	70,432
Net earnings						35,071
Cash dividends on common stock, \$.69 per share						(11,375)
Cash dividends on preferred stock, $2 per share						(4,031)
Issued in 3 for 2 common stock split		5,386,876		26,934	(26,934)	(84)
Sale of common stock under employee stock options		54,325		272	963	
Conversion of preferred stock	(28,180)	47,346	(141)	237	(96)	
Balance February 3, 1973	**1,984,540**	**16,587,333**	**$ 9,923**	**$82,937**	**$103,308**	**$ 90,013**

At February 3, 1973 the aggregate liquidation preference of the outstanding preferred stock was $89,304,000.

See accompanying Notes to Financial Statements

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fifty-Three Weeks Ended Feb. 3, 1973	Fifty-Two Weeks Ended Jan. 29, 1972 Restated
Source of funds		
Net earnings	$ 35,071,000	$ 28,675,000
Depreciation and amortization	13,464,000	11,732,000
Deferred income taxes	2,548,000	5,907,000
Working funds provided from operations	51,083,000	46,314,000
Properties sold or to be sold under lease-back agreements	23,000,000	22,829,000
Issuance of long term notes	3,022,000	3,550,000
Sale of sinking fund debentures		35,000,000
Sale of convertible debentures	35,000,000	
Sale of capital stock	1,235,000	32,997,000
Funds previously reserved for investment	12,000,000	
Other sources	1,925,000	2,419,000
	127,265,000	143,109,000
Use of funds		
Cash dividends	15,406,000	14,306,000
Property additions	41,789,000	53,412,000
Payments on long term notes	14,152,000	13,781,000
Funds reserved for investment in Holt, Renfrew & Co., Limited		12,000,000
Excess of cost of purchased subsidiaries over equity in net assets	6,738,000	
Investment in Broadway-Hale Credit Corp.	983,000	928,000
Other uses	1,325,000	645,000
	80,393,000	95,072,000
Increase in working funds	**$ 46,872,000**	**$ 48,037,000**

Working funds consist of current assets less current liabilities excluding current deferred income tax applicable to installment sales.

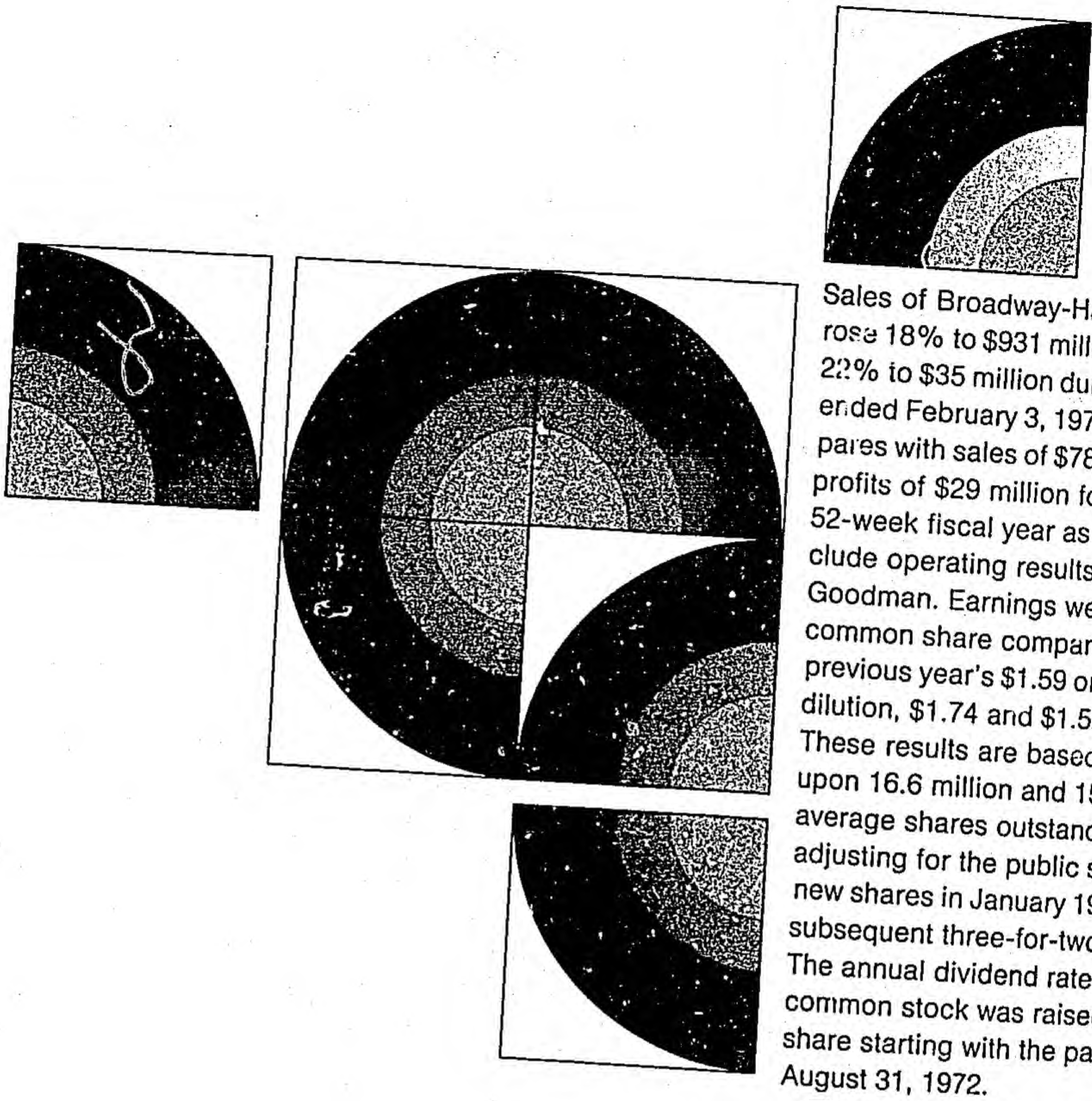
See accompanying Notes to Financial Statements

BROADWAY-HALE STORES, INC.

FINANCIAL HIGHLIGHTS

	FEB. 3, 1973	JAN. 29, 1972
Sales	$931,049,000	$787,667,000
Net Earnings	35,071,000	28,675,000
Per Share of Common Stock	1.87	1.59
Working Funds	254,831,000	207,959,000
Property and Equipment	174,535,000	169,210,000
Total Assets	565,682,000	496,108,000
Long Term Debt	119,558,000	95,688,000
Equity of Shareholders	286,181,000	265,365,000

BROADWAY-HALE STORES, INC



Sales of Broadway-Hale Stores, Inc. rose 18% to $931 million and profits 22% to $35 million during the 53 weeks ended February 3, 1973. This compares with sales of $788 million and profits of $29 million for the previous 52-week fiscal year as restated to include operating results of Bergdorf Goodman. Earnings were $1.87 per common share compared to the previous year's $1.59 or, assuming full dilution, $1.74 and $1.52 per share. These results are based respectively upon 16.6 million and 15.4 million average shares outstanding after adjusting for the public sale of 750,000 new shares in January 1972 and the subsequent three-for-two stock split. The annual dividend rate on the common stock was raised to 70¢ per share starting with the payment of August 31, 1972.

The company's financial position remains strong. As reflected in the accompanying year end balance sheet, stockholders' equity was $286 million, long term debt $120 million and working funds $255 million. Since the close of the fiscal year arrangements have been made to borrow privately an additional $35 million for thirty years at 7½% interest.

1972 was an eventful year for the company. Bergdorf Goodman of New York and Holt, Renfrew of Canada were successfully integrated into our growing family of fine specialty stores, which are described in the following section of this report. Major department stores were built by Emporium in San Bruno and Salinas, California and by Weinstock's in Sacramento. Neiman-Marcus

opened a luxurious specialty store in Atlanta. Holt, Renfrew moved to new quarters in Calgary, Alberta, and Walden opened fifty-nine additional bookshops throughout this country. Sunset House, the nation's leading specialty mail order firm, successfully launched a group of most unusual pilot stores called Gadget Tree aimed principally at the young homemaker novelty and gift market.

Next November Broadway moves into its flagship store at Broadway Plaza, the hotel, office and retailing complex in the heart of downtown Los Angeles' rapidly emerging new business district. This fall the Broadway division will also open a large branch at Carson in Southern California and its fourth store in Phoenix.

The company's program for expansion through internal growth continues to accelerate. In addition to its location on Fifth Avenue, Bergdorf Goodman is now planning a large and luxurious store in White Plains, New York. Neiman-Marcus has announced major specialty stores in Northbrook on Chicago's North Shore and at Frontenac to serve the St. Louis market. Holt, Renfrew is opening a specialty store in Vancouver, British Columbia. Broadway is entering new markets with major department stores in Salt Lake City, Tucson and Albuquerque and planning additional branches in Southern California at Santa Anita, Puente Hills, Culver City and Glendale. Emporium expects to enter the Oregon market with several stores in Portland in addition to another branch in Northern California. Capwell's will add an additional store east of San Francisco Bay and Weinstock's is making plans for another one in the Sacramento Valley. Walden expects to continue opening about one new bookshop per week and Sunset House will be adding a number of Gadget Tree shops in California and other western states.

Theodore Meyer, who had been corporate counsel and a member of the Board for more than twenty years, died last month after a long illness. His contribution to the company has been enormous and he will be deeply missed. Succeeding him as Director is K. Wade Bennett, former President of the New York Division of R. H. Macy & Co., who has recently been elected an Executive Vice President.

During 1973 sales of Broadway-Hale Stores, Inc. should exceed the billion dollar mark for the first time and profits are expected again to reach new record levels. Sparked by its vigorous expansion program, the company's longer term prospects continue to be favorable.

We wish to take this opportunity to express gratitude to our more than 12,000 shareholders and 32,000 associates within the company for their effective support.

Respectfully submitted,

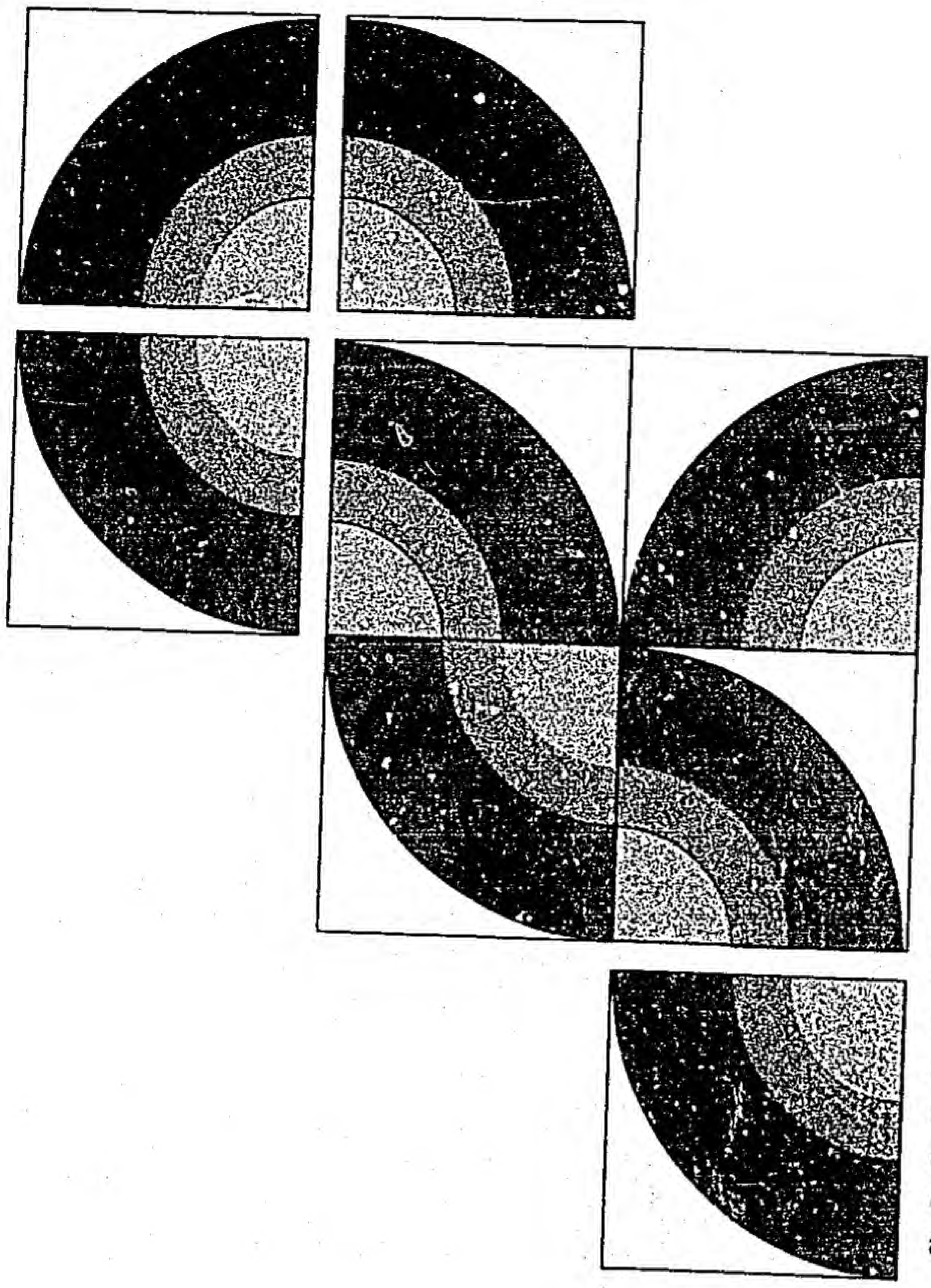
Edward W. Carter

EDWARD W. CARTER, Chairman

Philip M. Hawley

PHILIP M. HAWLEY, President

April 26, 1973



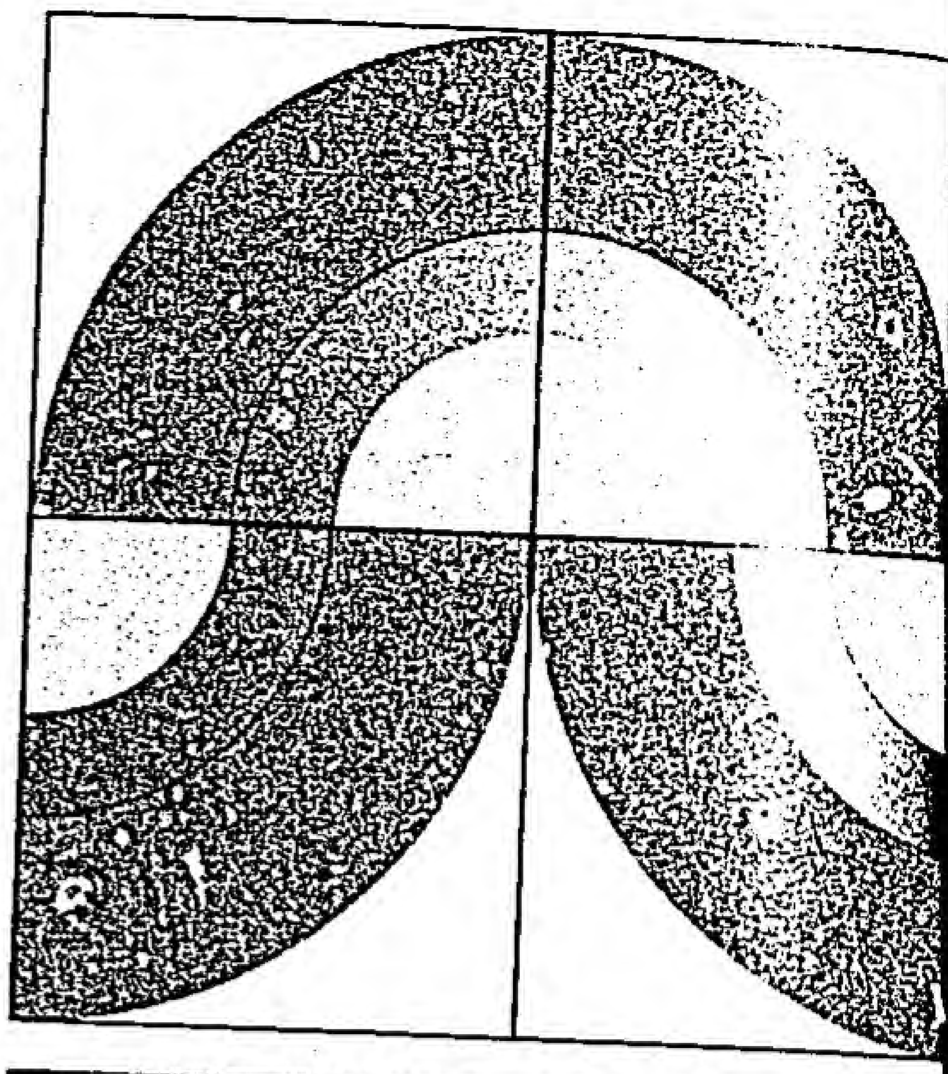
Broadway-Hale's belief in the future importance of luxury specialty stores has brought together three outstanding specialty divisions. Though they represent only one part of the company's business, specialty stores have been selected for particular emphasis in this year's annual report because of their important role and the increasing contribution they are expected to make.

The partnership of famous designers and fine stores as presented in the following pages portrays how customer preferences in fashion are interpreted and brought to the stores. It also serves to illustrate what distinguishes luxury specialty stores from other forms of retailing. Their growing appeal to customers makes their story both interesting and challenging, and predicts a profitable and rewarding future.

BROADWAY-HALE STORES, INC.
SPECIALTY STORES

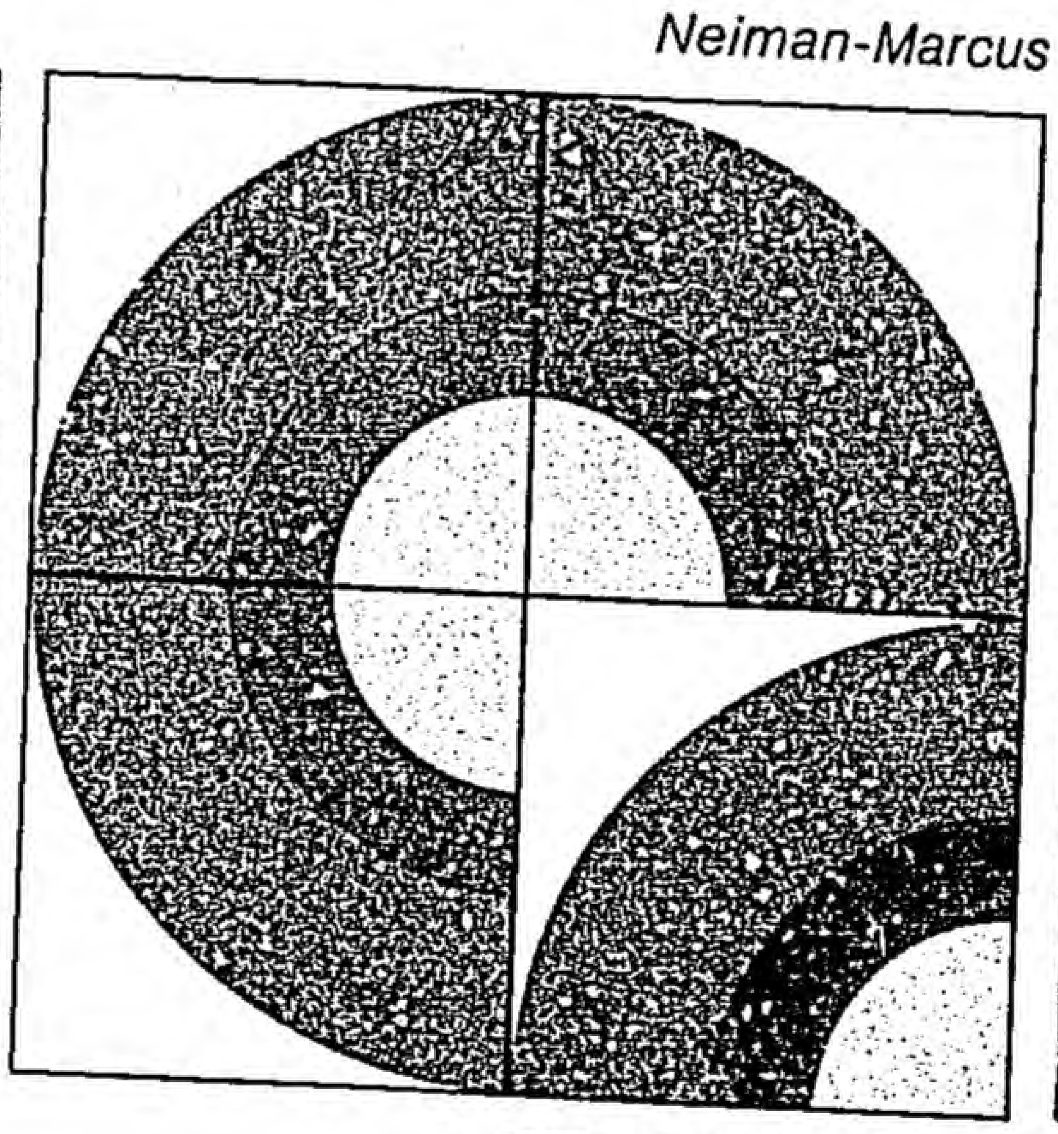
Bergdorf Goodman, Neiman-Marcus, and Holt, Renfrew represent three of the most distinguished names in the field of fine merchandise distinctively presented to the customer. Each has achieved preeminence in its own geographic area: Bergdorf Goodman in New York, Neiman-Marcus in Texas, Florida and Georgia, and Holt, Renfrew in Central and Eastern Canada. In a field known for exacting standards of service, high taste levels and discriminating customers, these three businesses have distinguished themselves as have few others. Broadway-Hale is particularly proud of them and confident of their future potential.

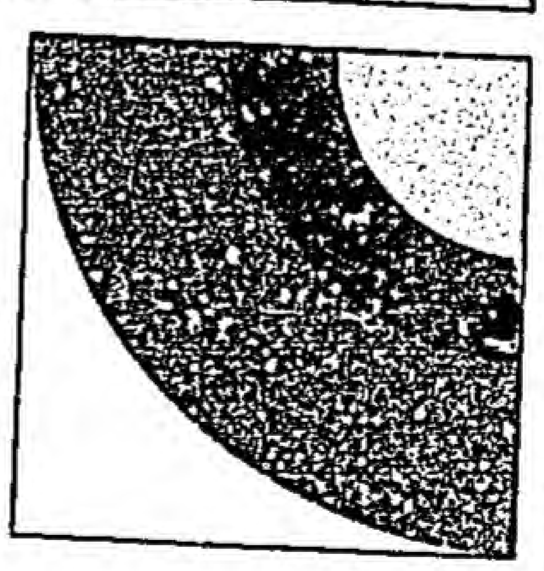
Several predominant characteristics have marked the consumers of the post-war period: they have achieved

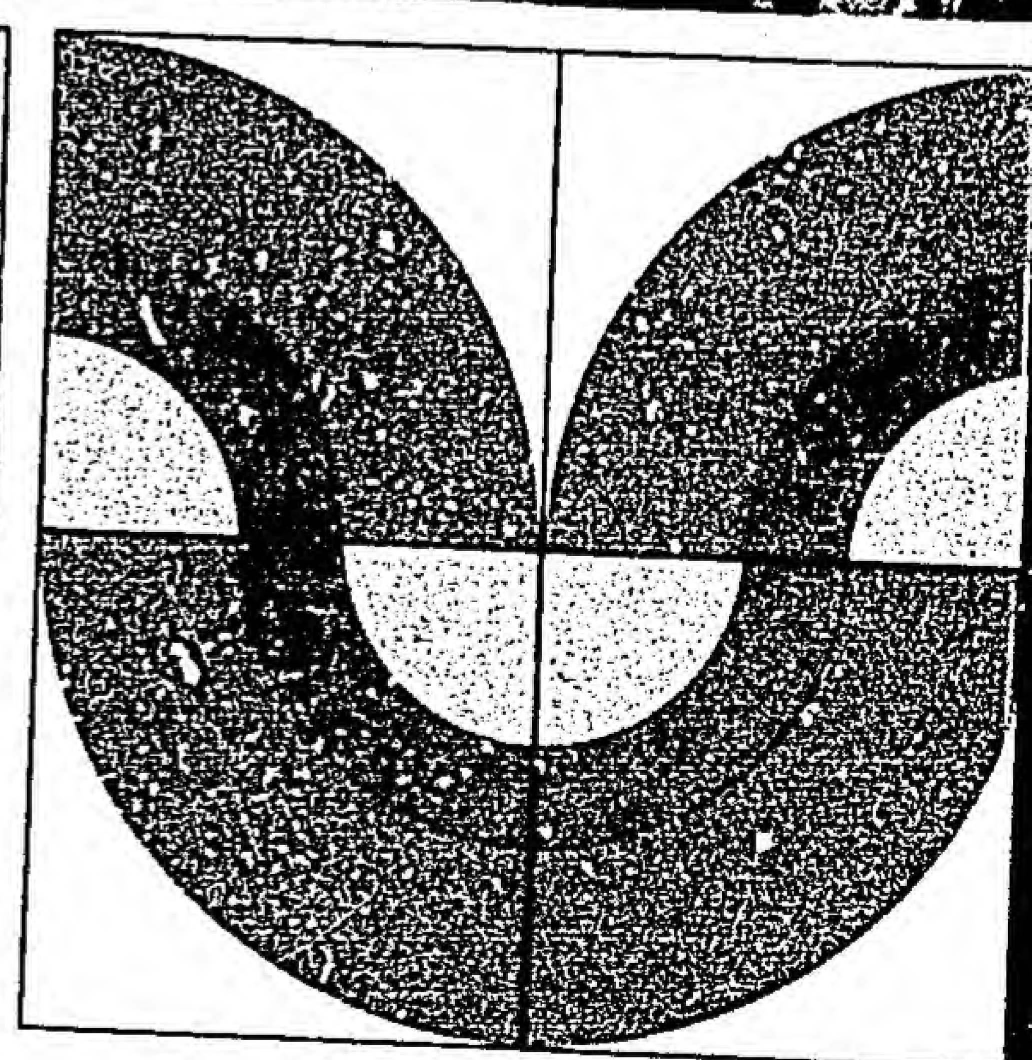


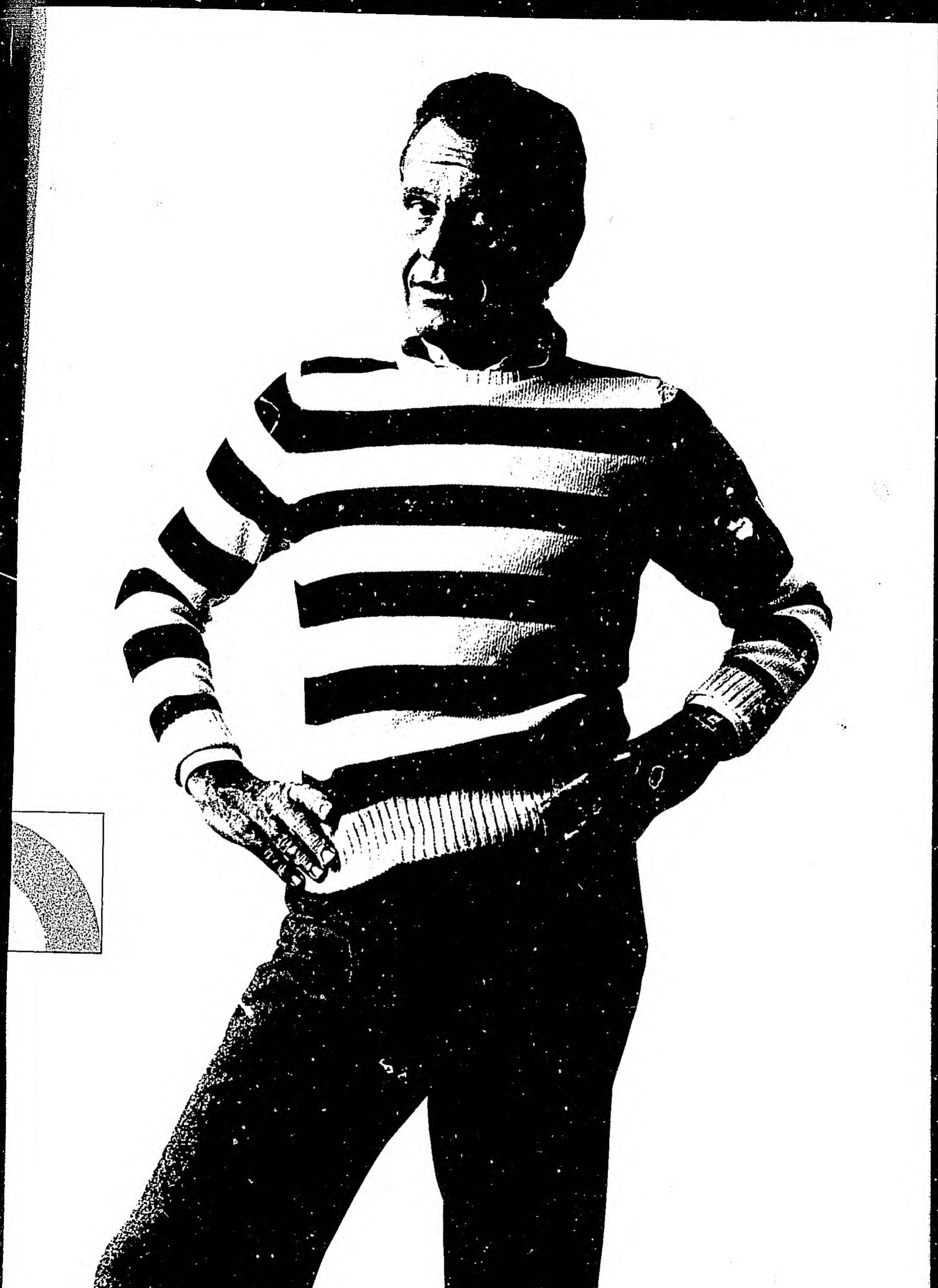
BILL BLASS: *"Today, men and women are collectors, thus they are proud of their collection of clothes—new clothes—not* fashion. *I'm sick of the word."*

Neiman-Marcus









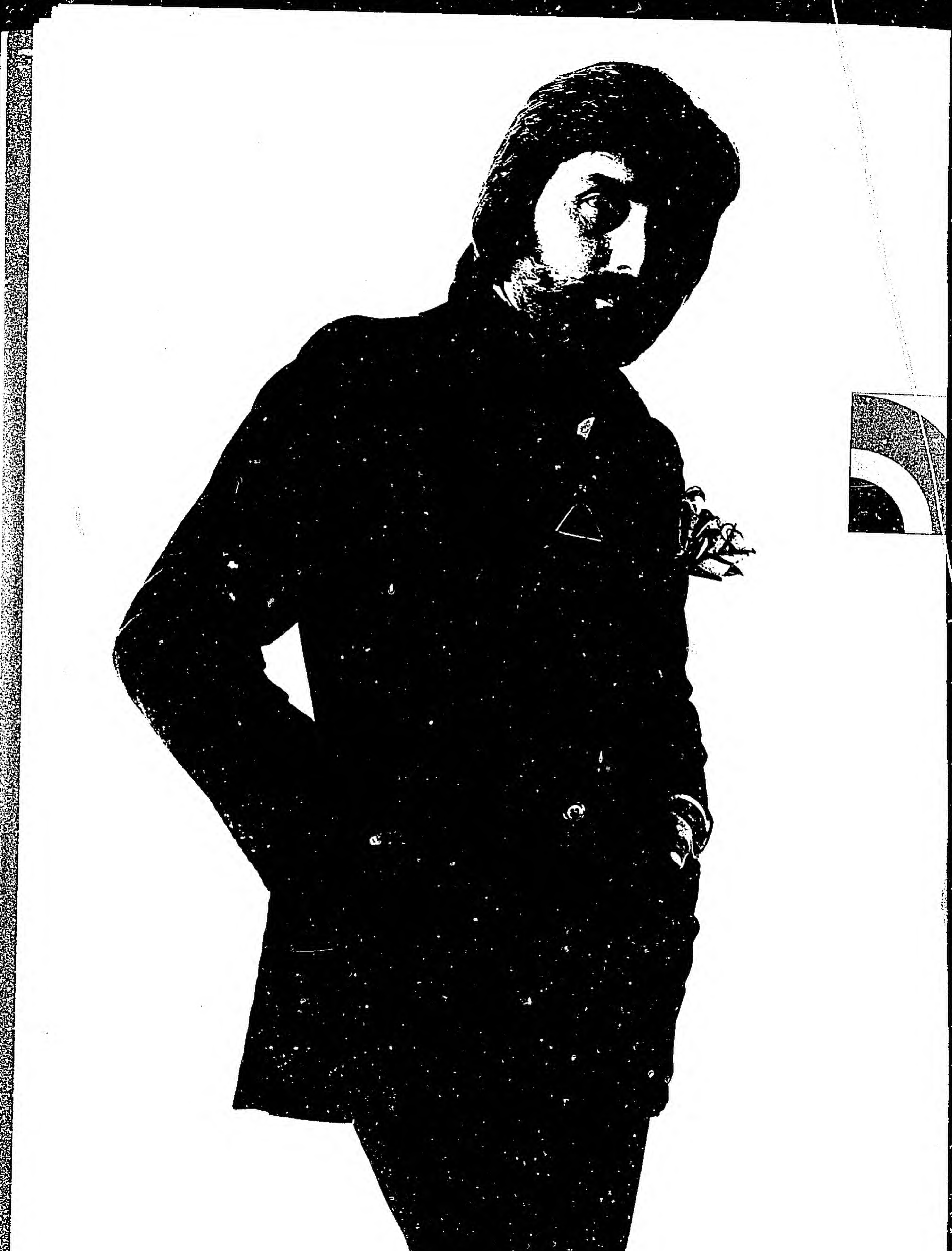
increasingly higher levels of education, along with those higher education levels have come rising levels of taste, they have had steadily growing levels of disposable income to spend in a discretionary way and, perhaps most importantly, they have displayed a tendency to be more and more discriminating in the way they choose to shop and purchase. Each year an increasing number of consumers search for merchandise with a difference and for the retail store which provides it.

Luxury specialty stores appear particularly well suited to appeal to this growing group. A specialty store derives its very name from handling its entire business in a "special" way. It is distinguished from other retailers by its

HANAE MORI: *"A woman must enhance her femininity. In couture, the female form is a canvas on which graceful living art can be created."*

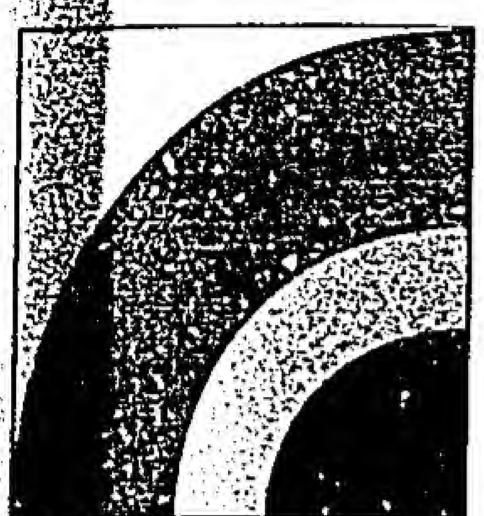
Neiman-Marcus

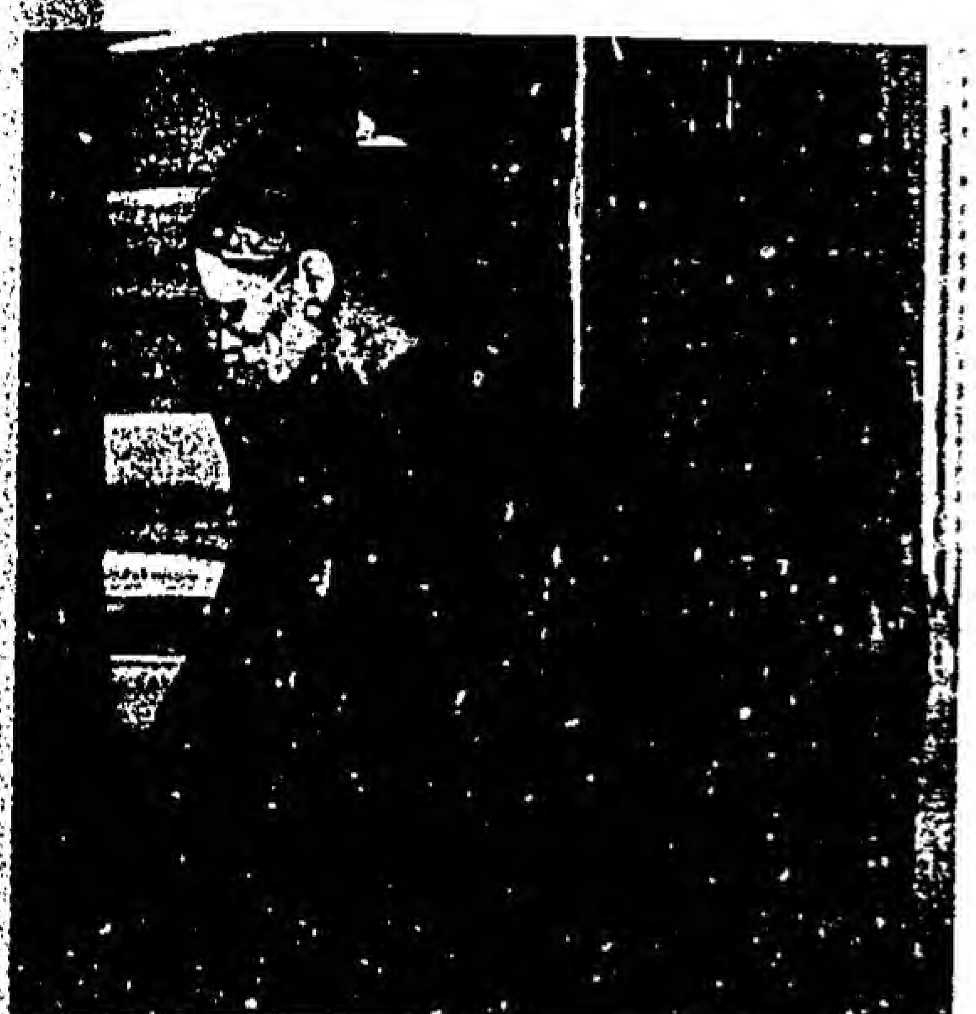
Bergdorf Goodman



willingness to edit its selection of merchandise with a special point of view and to present it in special surroundings that are both tasteful and different. Above all it has a high level of consciousness about service and works hard to attain a personal relationship in serving its customers. Taste, judgment of style, quality and a well defined approach to fashion are the hallmarks of a truly fine specialty store.

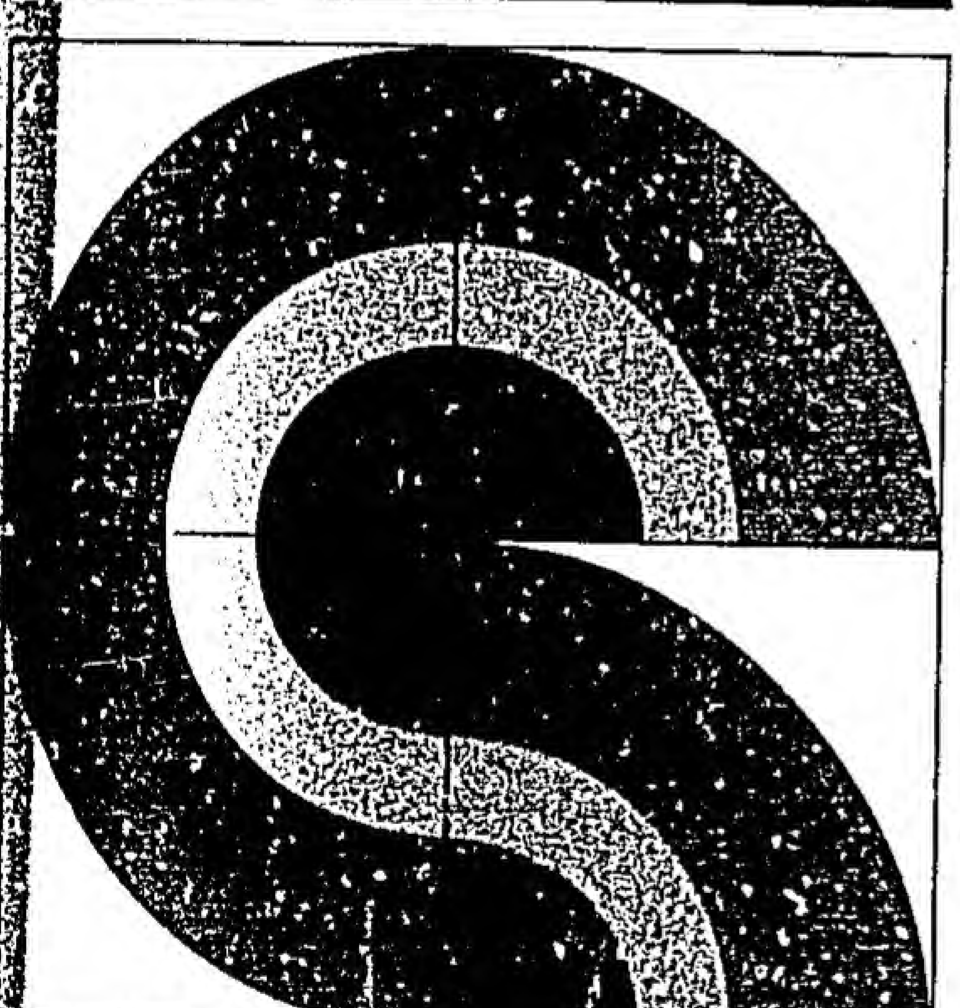
In the face of an ever larger group of families becoming potential customers for the fine specialty store it is apparent that only a select few among the ranks of fine retailers have so distinguished themselves as to achieve high standing in their local community and, in addition, national recognition.

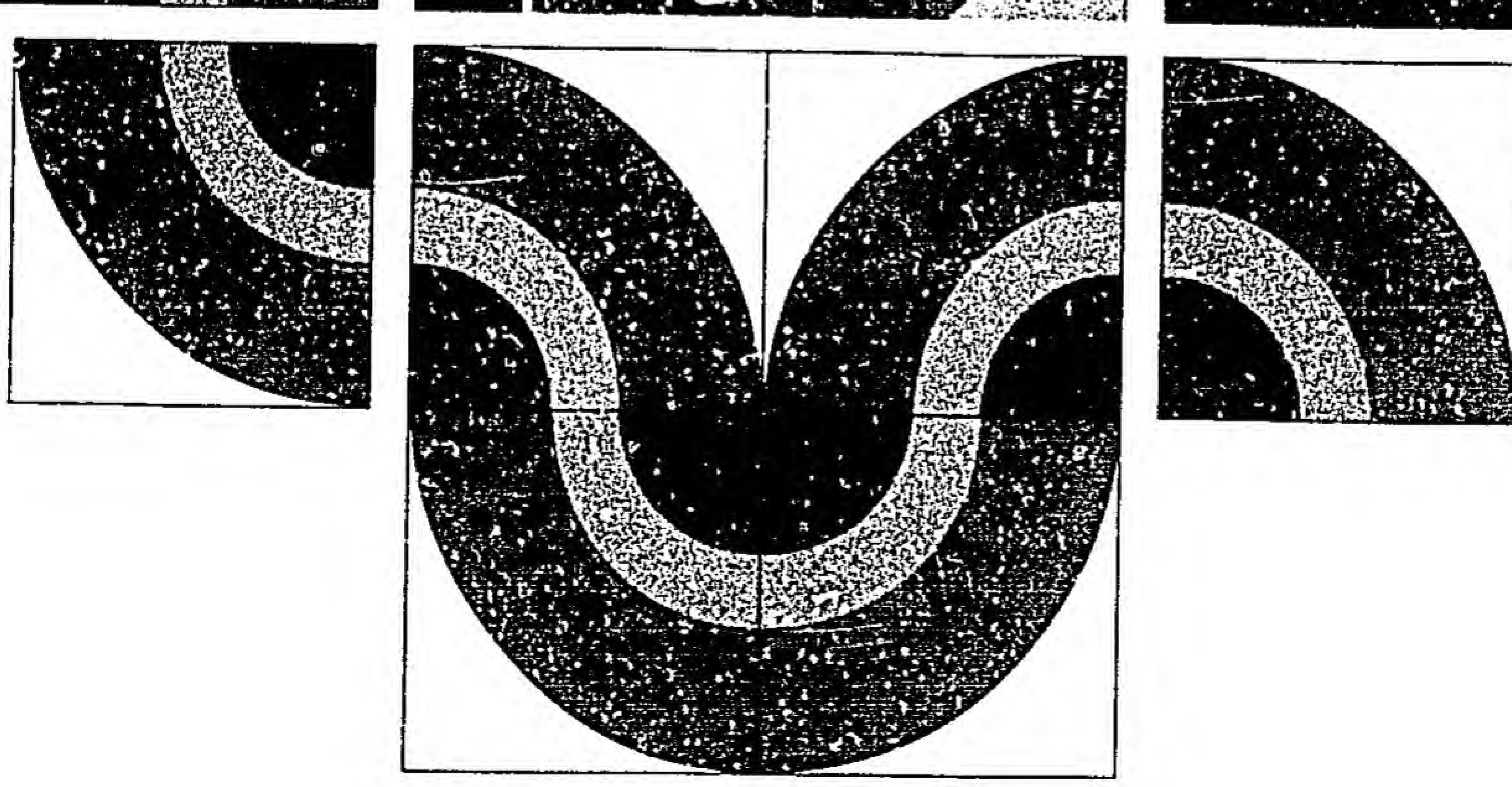




EMANUEL UNGARO: *"It is not most important to create a dress or a coat but to create an atmosphere, one that a woman can identify with, a reflection of the way she is. Each woman must find 'L'air de sa chanson'."*

Holt Renfrew

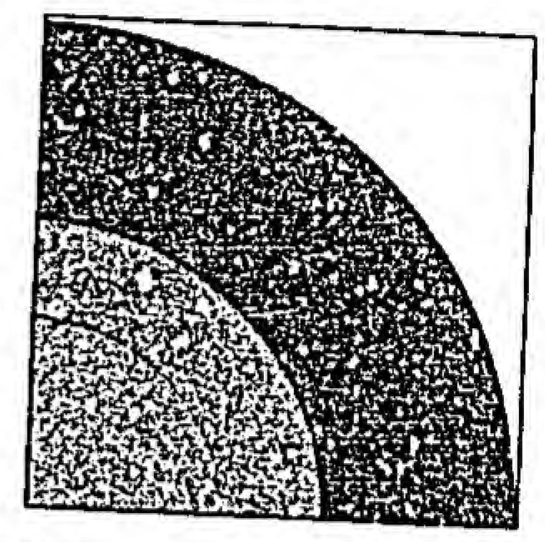




Each of Broadway-Hale's fine specialty stores meets these criteria and thus appears to be in a strong position to expand into the many key markets across the United States and Canada that offer opportunity for this kind of retailing.

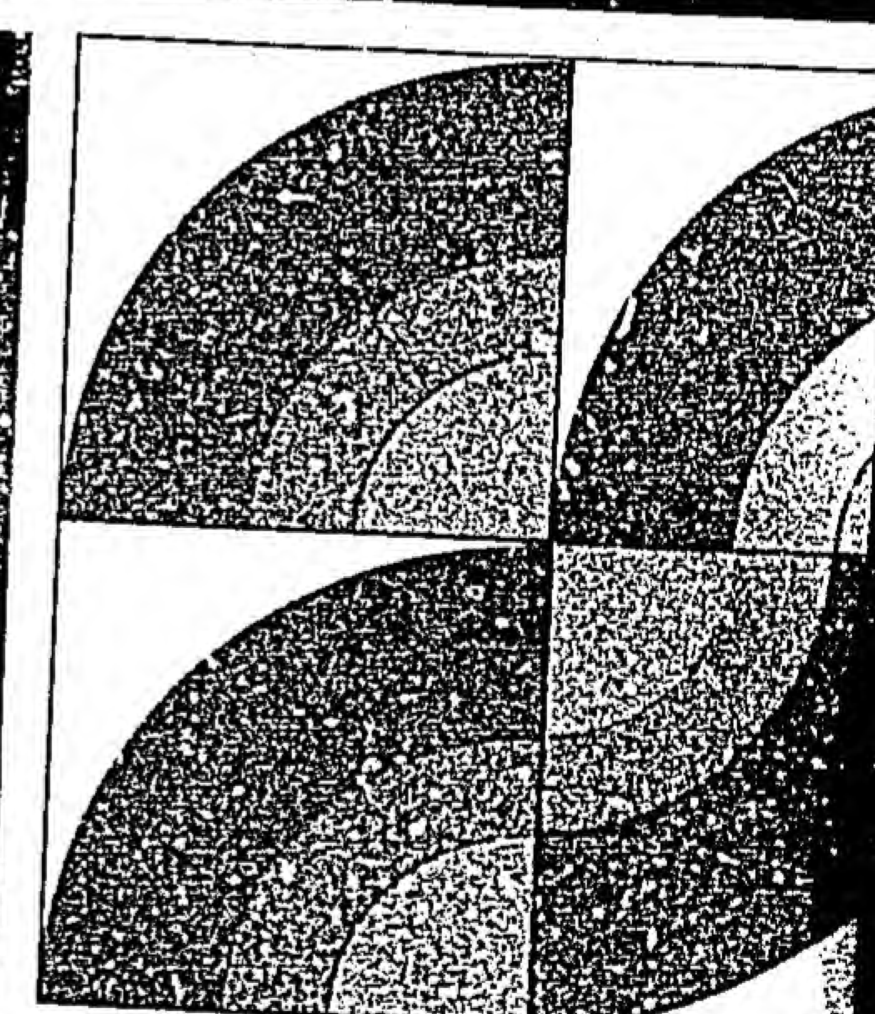
Along with market opportunities offering the prospects of increased volume goes the corollary advantage of being able to spread fixed costs over that increased volume with the promise of improved profitability. In addition, the talents of highly trained and competent merchants can be made available to a number of stores rather than a limited few.

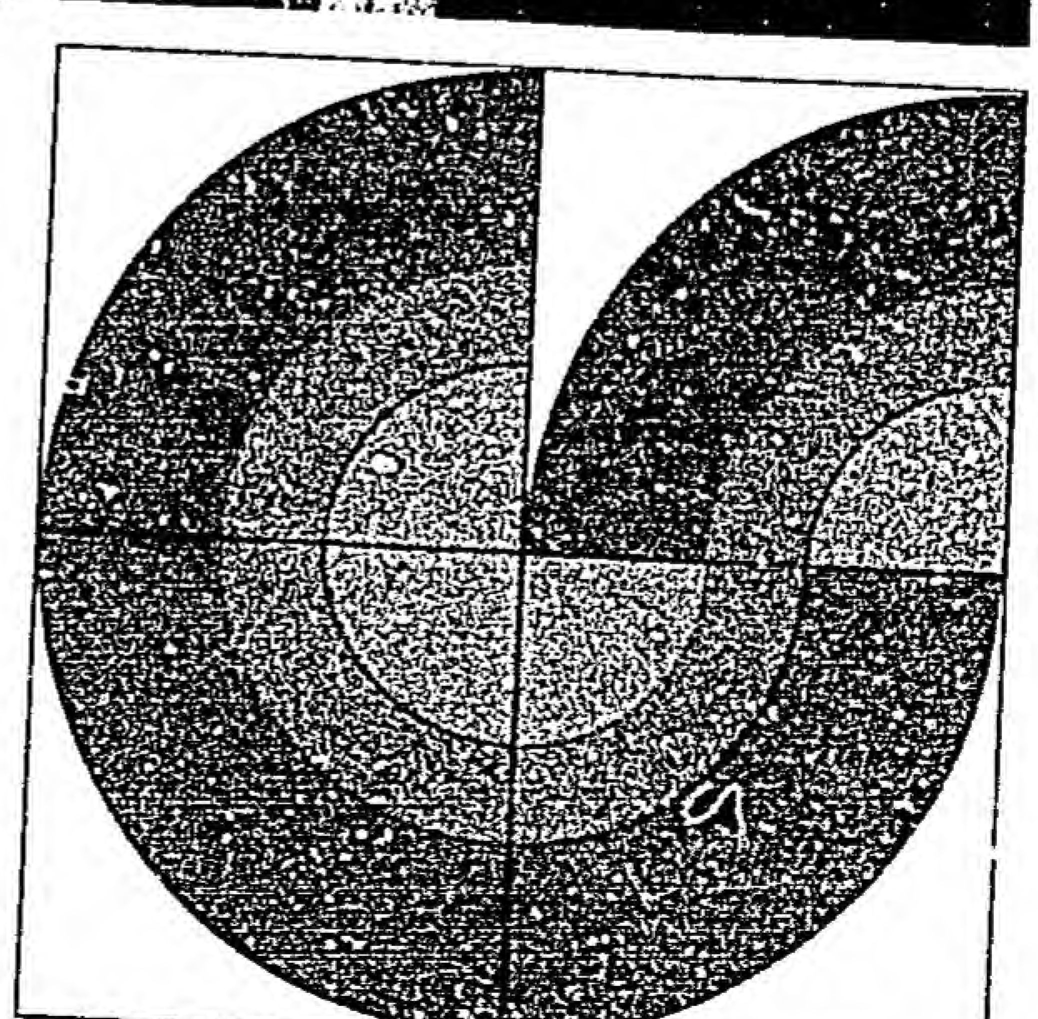
Neiman-Marcus, the first fine specialty business to join the Broadway-

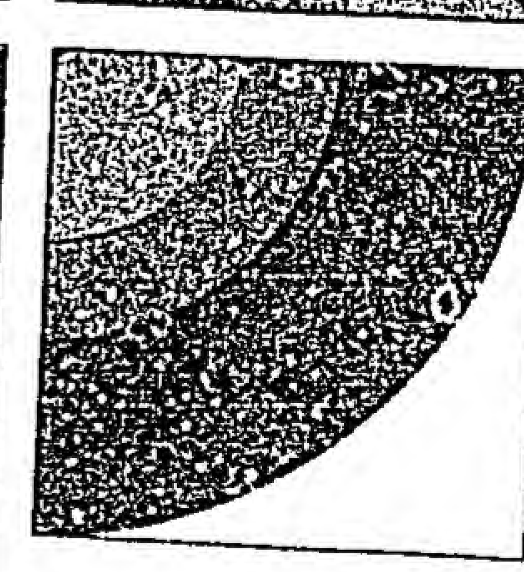


***HALSTON:** "I'm trying to give women what they need and want, which is to be attractive, comfortable, practical and, at times, exciting."*

Bergdorf Goodman







Hale family, has tested the above concepts by opening a store in Bal Harbour, Florida in January 1971, its first store outside of Texas. This was followed by the opening of a store in Atlanta, Georgia, in August 1972. Both stores have been well received in their local communities and are operating successfully today. The Bal Harbour store is currently expanding its selling facilities to accommodate the strong sales pattern experienced.

In addition, as noted elsewhere in this report, Neiman-Marcus has announced plans to build in the St. Louis and Chicago markets and has several other areas currently under study.

Bergdorf Goodman's newly announced store in White Plains is the re-

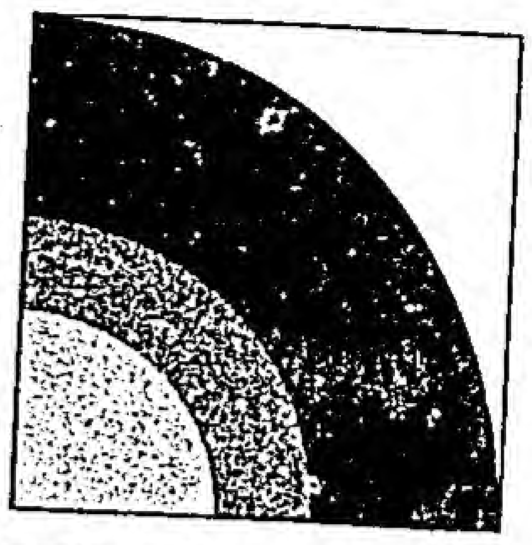
ROBERTA OF VENICE: *"The time of the dictator in fashion is dead. It is a time for the real creator, one who can create a style."*

Neiman-Marcus

sult of a thorough study of greater New York City which undoubtedly will result in additional store decisions in coming months within that market.

Holt, Renfrew, as also reported, will soon complete its coast to coast coverage of Canada with the building of a new store in Vancouver and has under study the possibilities for further strengthening its position in cities where its stores currently exist.

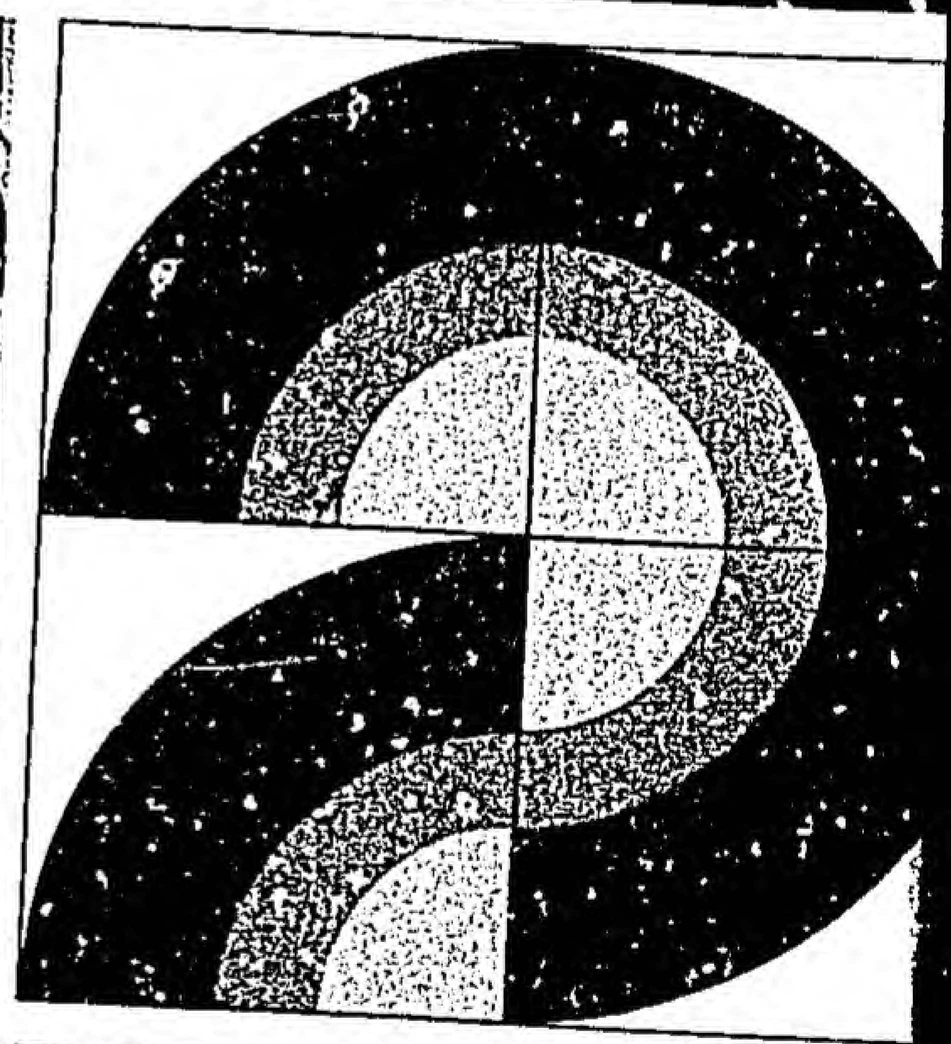
One of the important developments resulting from the association of three fine specialty managements has been the opportunity afforded to share experiences and points of view, particularly with reference to emerging customer taste preferences, fashion trends, techniques for offering better service, innovative approaches to the display

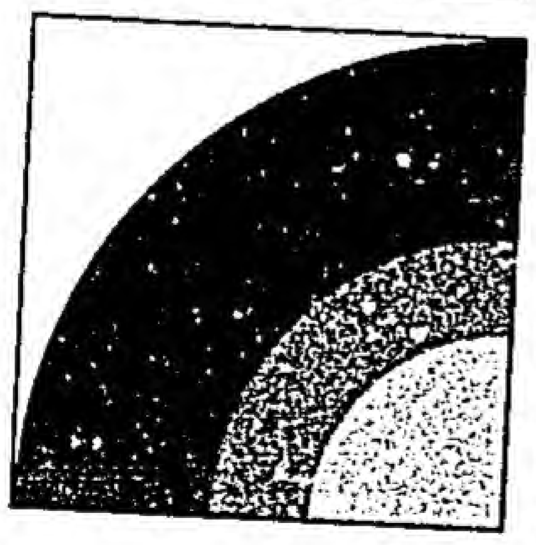


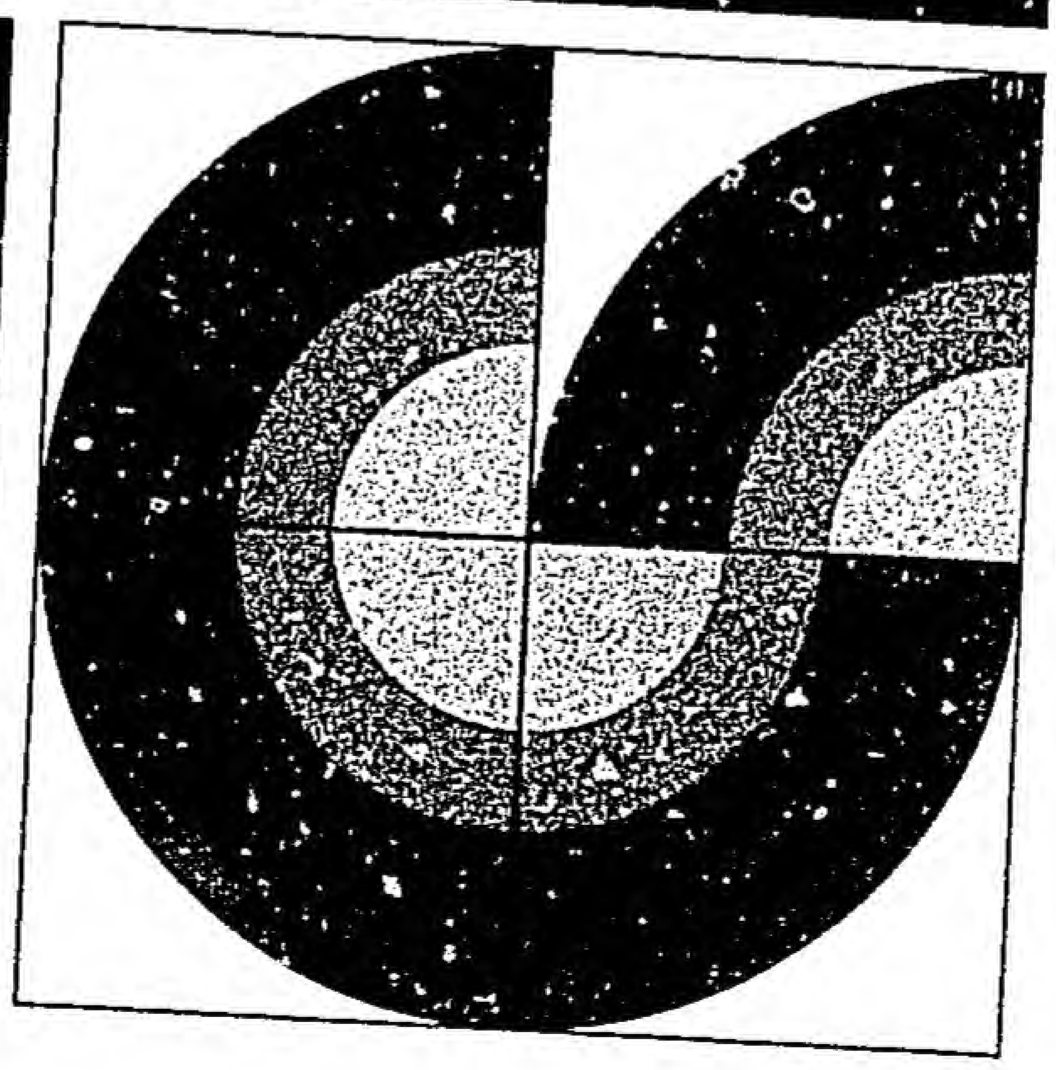
GIVENCHY: *"There will always be a need for beautiful things—in fashion as in anything else. In couture, as in life, details are important."*

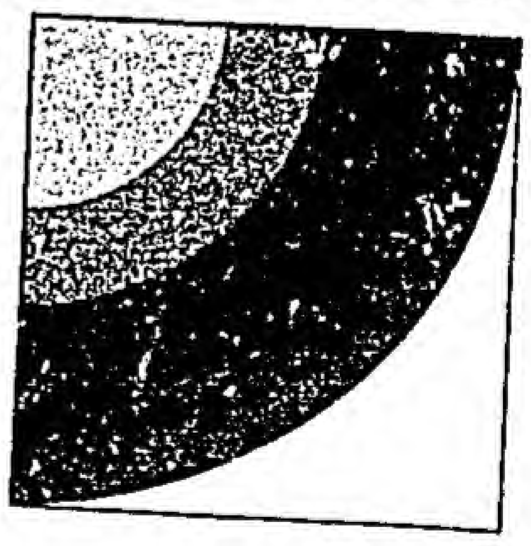
Neiman-Marcus

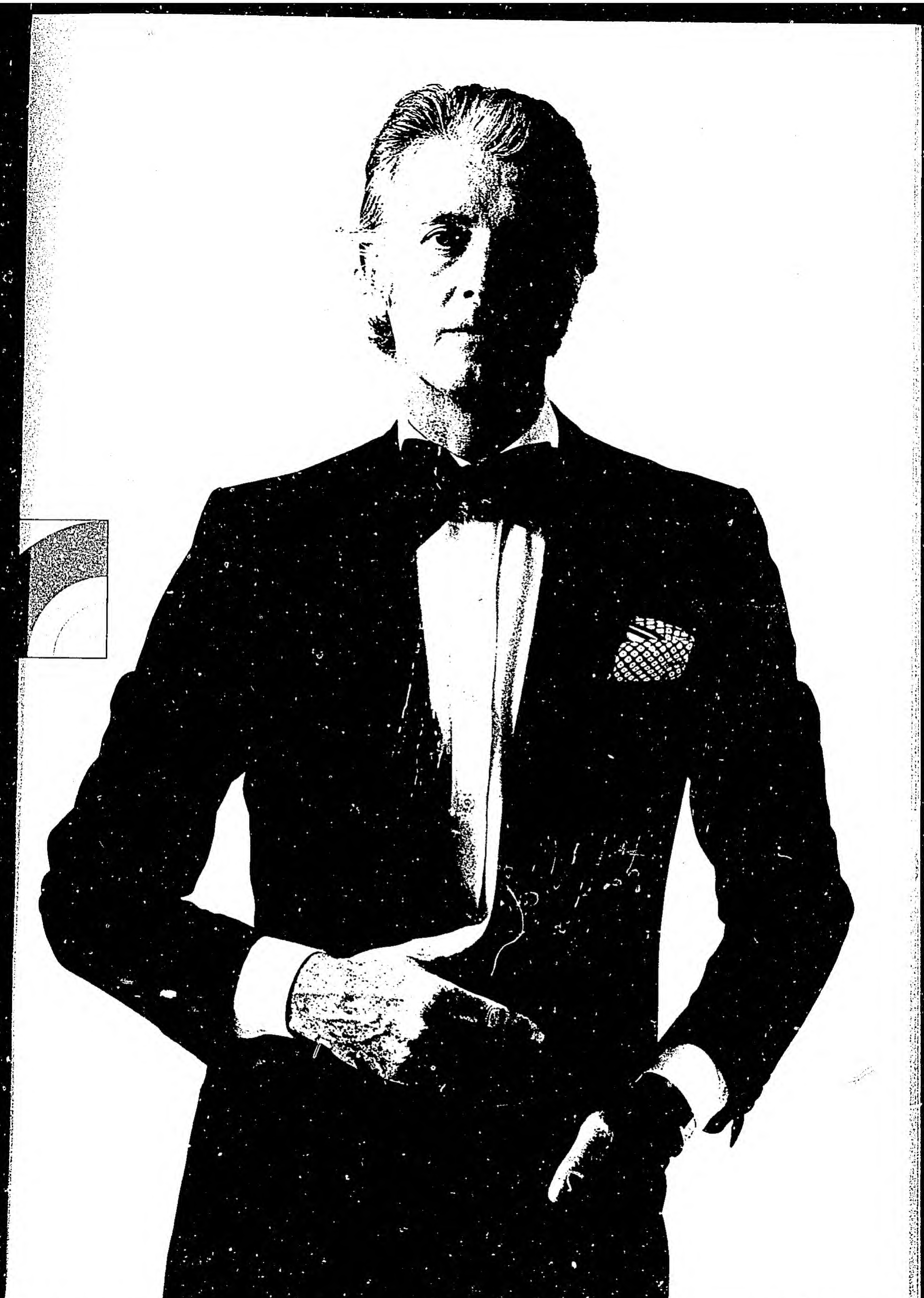
Bergdorf Goodman





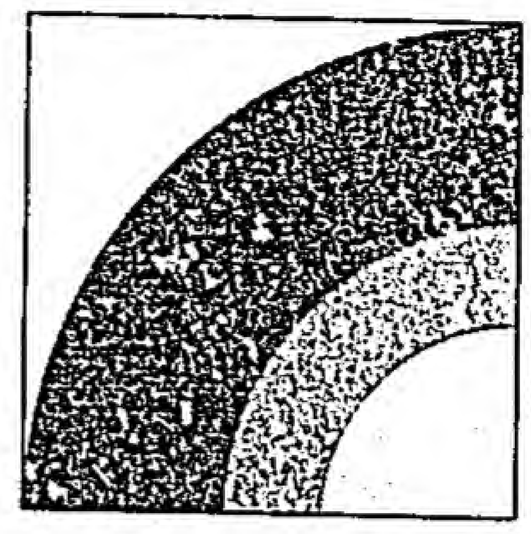






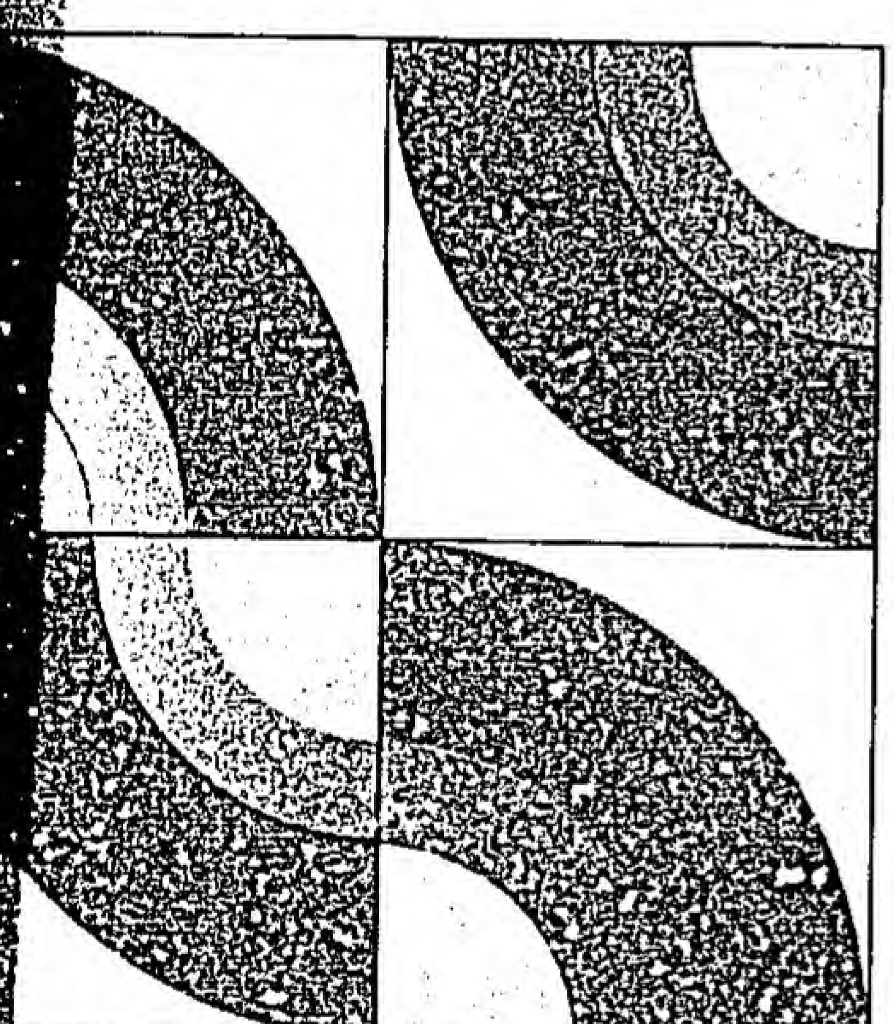
and presentation of merchandise, and a host of other subjects. This stimulation extends to the sharing of ideas for improved efficiencies in operations, with resulting profit improvements.

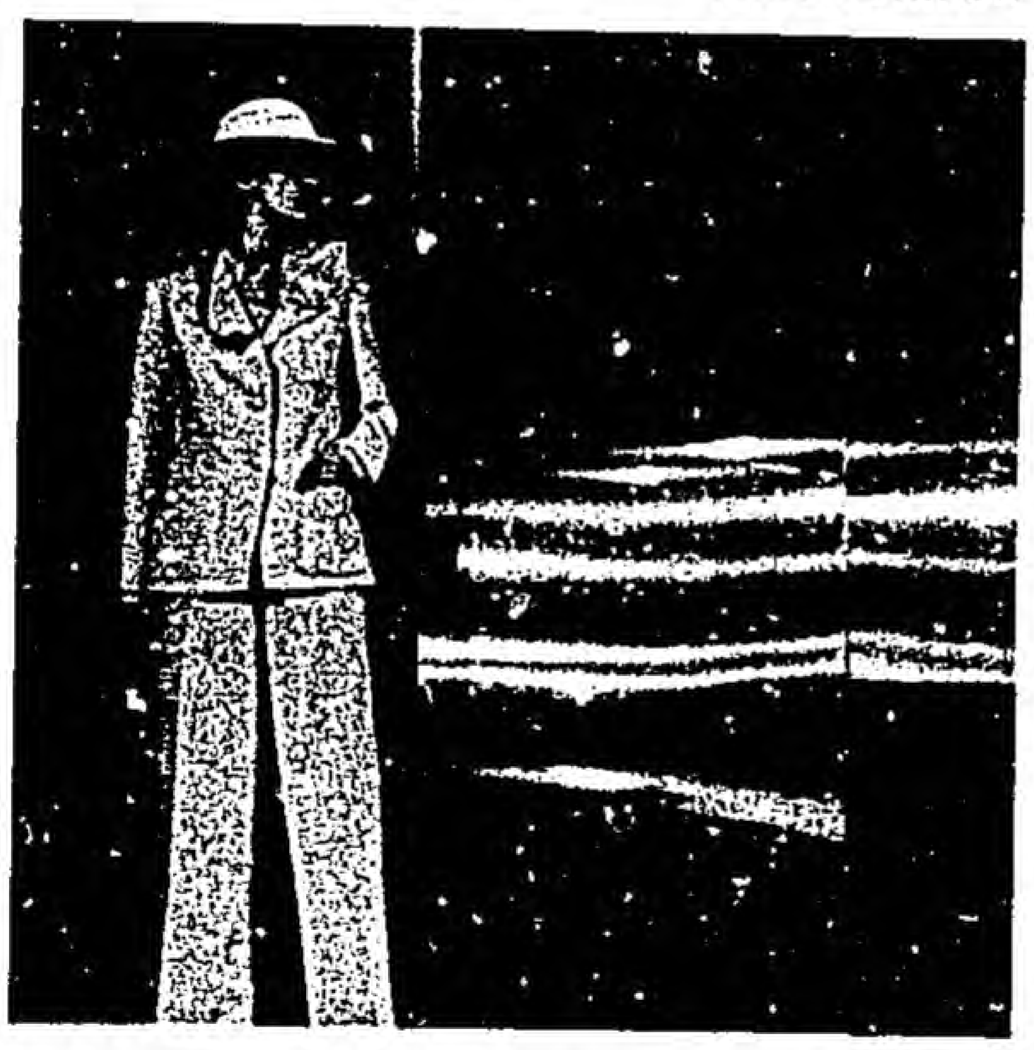
Obviously, people play a major role in all forms of retailing and nowhere is this more true than in specialty stores. To be able to attract, develop and retain devoted and competent people is vital to the continuing strength of each of these stores and to its ability to grow. Broadway-Hale believes that this group of outstanding names coupled with a major growth program provide a strong inducement and attraction to able merchants in the specialty store field to

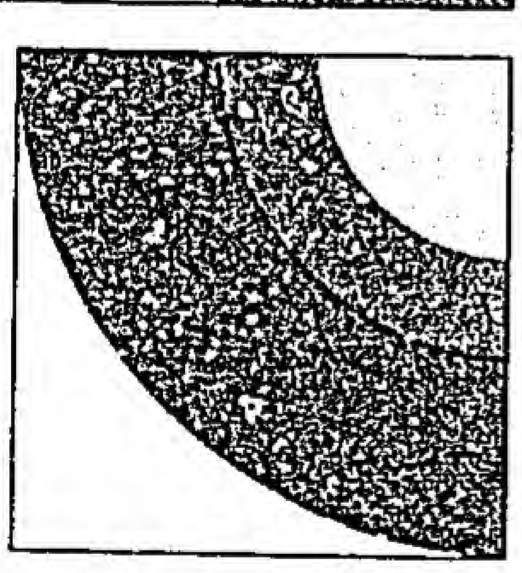


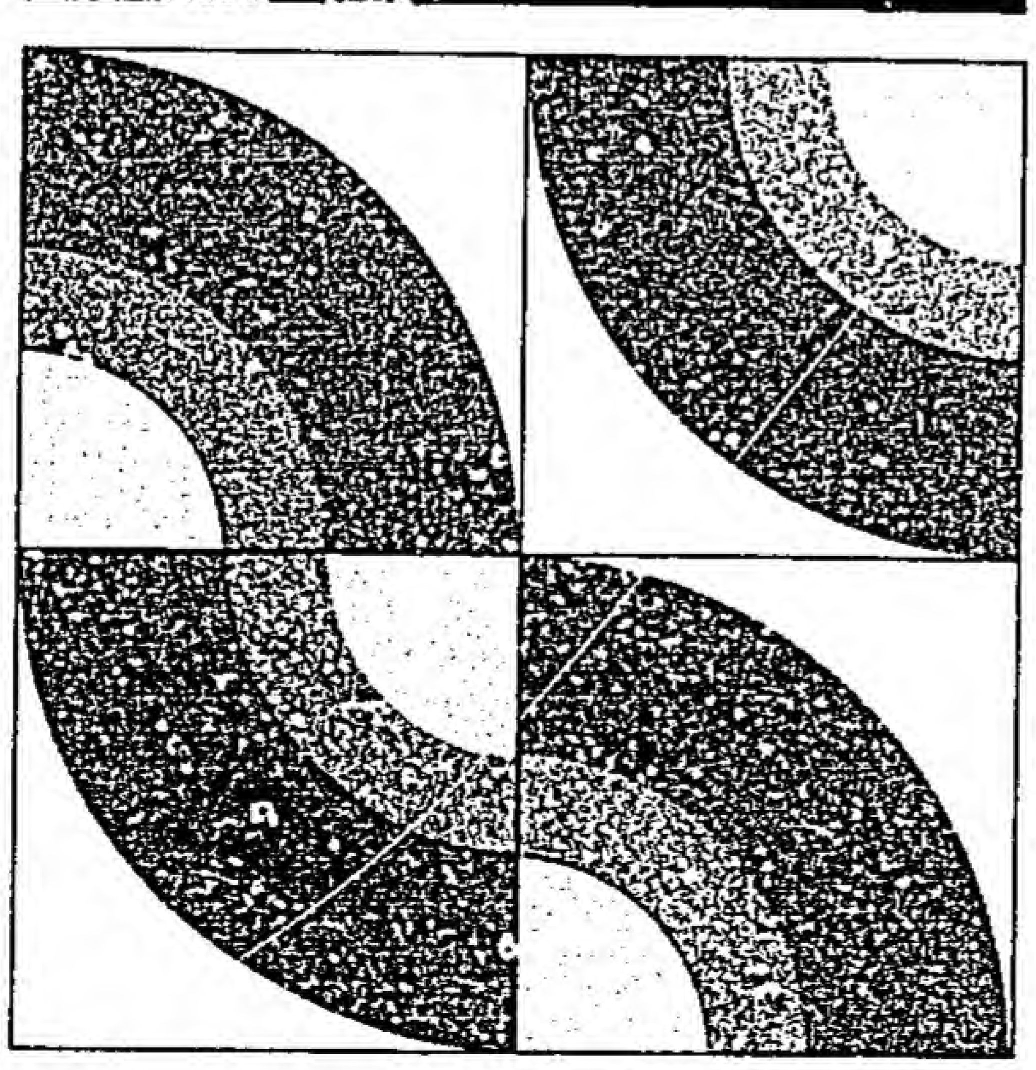
MARC BOHAN OF CHRISTIAN DIOR:
"Design should first be elegant—that is, simple, never provocative. It must be refined but suitable for a woman who lives today's life—a very active sort of life."

Holt Renfrew



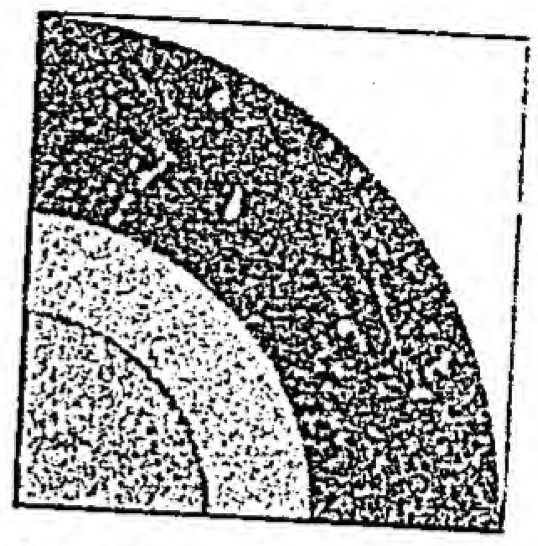






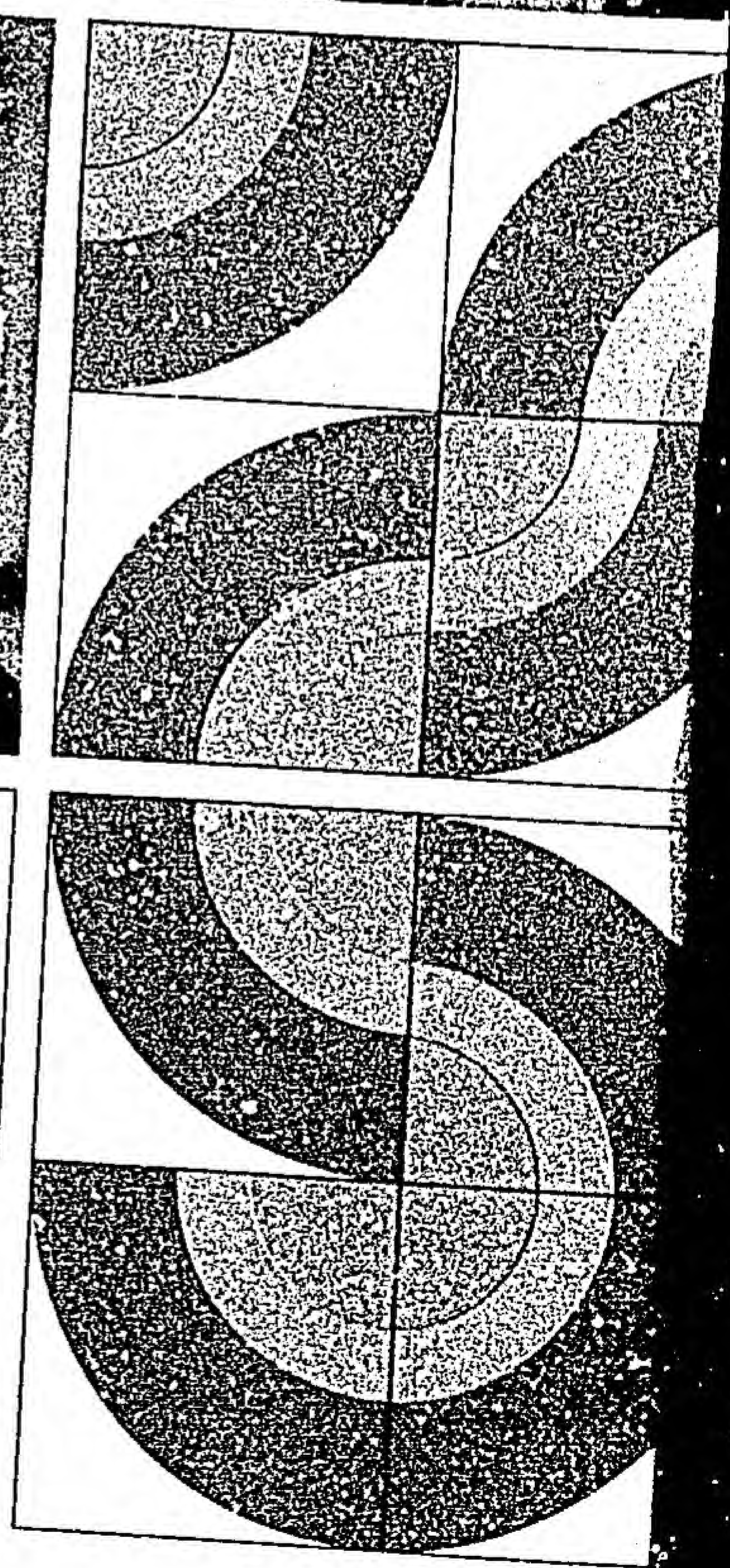
make a career decision with the company, and that expansion plans provide the best guarantee of continuing opportunity for career advancement to promising executives. Managements of specialty divisions devote a large amount of time to insure that each business will have the required talent to achieve its growth potential in its respective market.

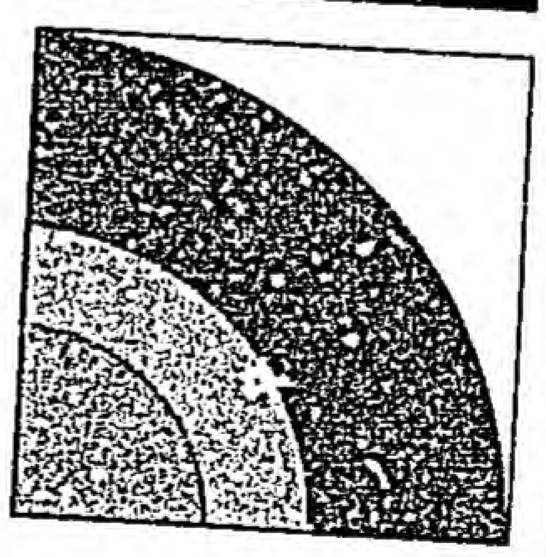
Merchandise excitement is the end product that determines a store's acceptance in a community. Toward that end each division sends its buyers through the markets of the world in search of the particular styles which will appeal to the highly discriminating customer. Designers from all countries play a key role in this process, often



PARTOS: *"Luxury furs . . . my fabrics . . . never overpowered, always calm, simple, nonchalant . . . melded into a 'total look' for the group I have in mind."*

Bergdorf Goodman

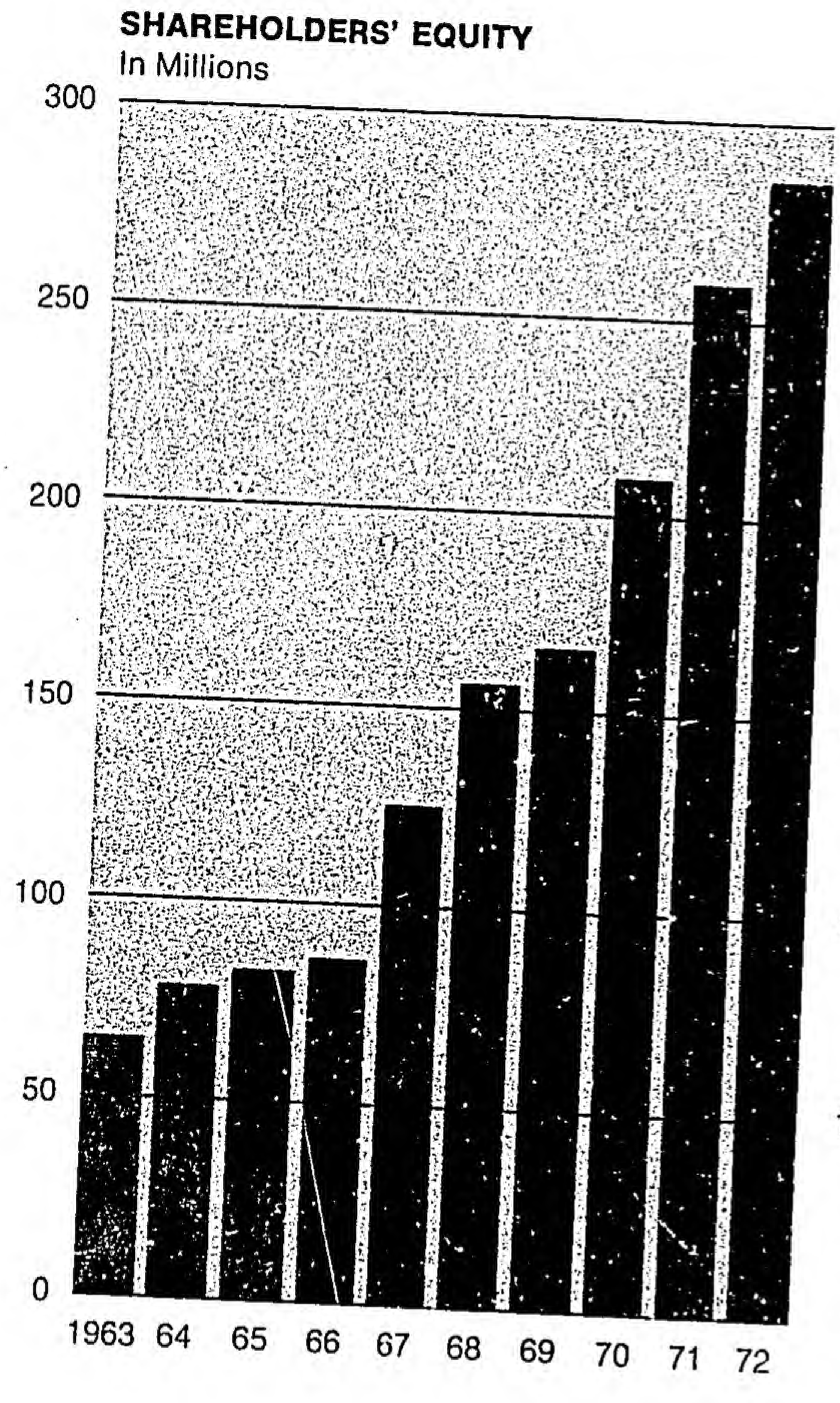


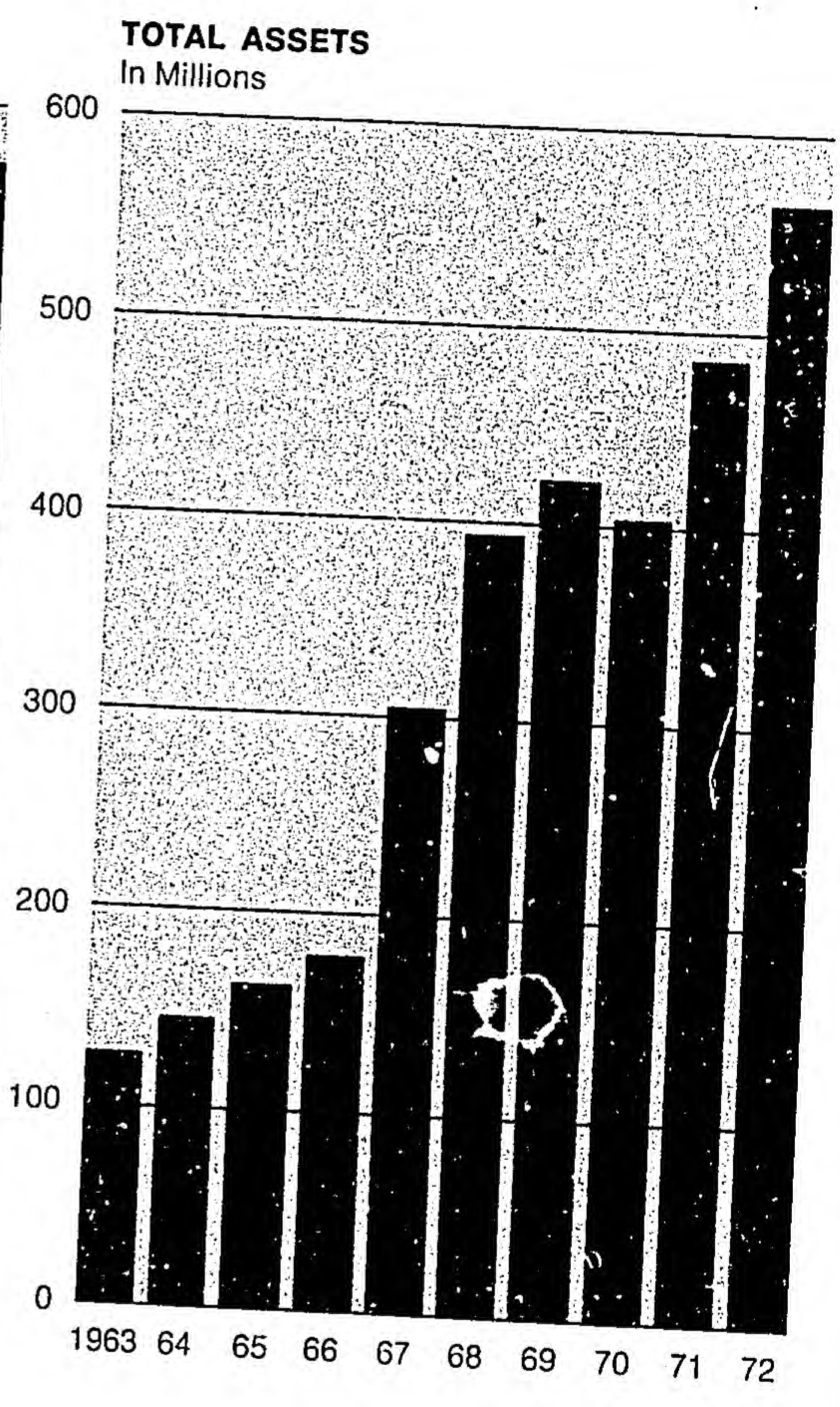


interpreting in a particular and appropriate way the fashions which stores need to bring to their customers. Perhaps nothing better captures the mood and difference in fine specialty retailing than the cross section of designers and the presentation in our stores of their merchandise as shown on these pages. They afford a glimpse into what attracts the customer—that special appeal and approach that give specialty stores such promise in the coming years as a segment of retailing which will enjoy growing strength and profitability. Broadway-Hale is fully prepared to participate in serving this growing group of customers.

YVES ST. LAURENT: *"Fashions change. Style is eternal. What interests me in fashion is the essential, and the essential is the woman I dress."*

Holt Renfrew


SHAREHOLDERS' EQUITY
In Millions
300
250
200
150
100
50
0
1963 64 65 66 67 68 69 70 71 72


TOTAL ASSETS
In Millions
600
500
400
300
200
100
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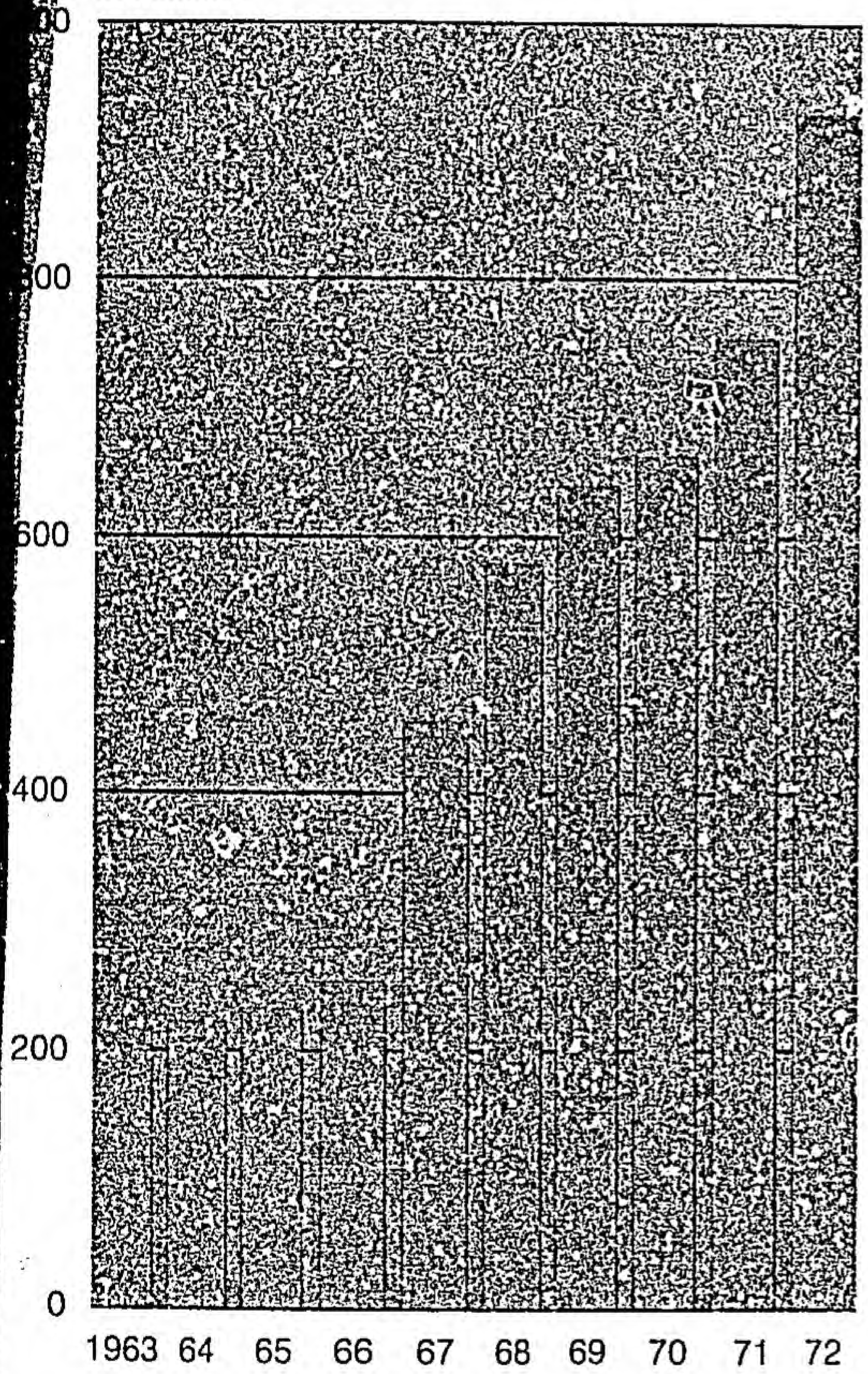
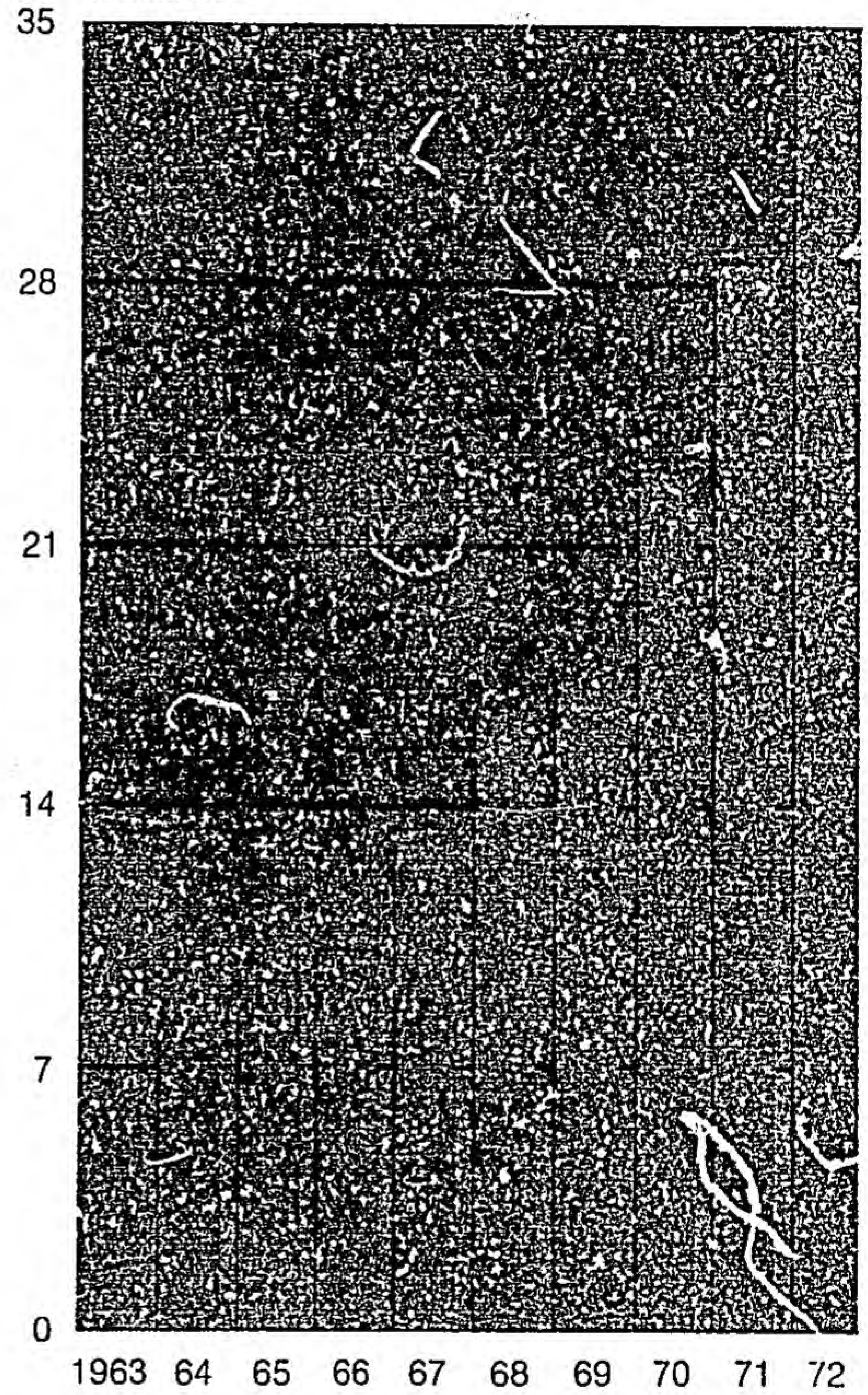
BROADWAY-HALE STORES, INC.
FINANCIAL STATEMENTS

SALES
In Millions



NET EARNINGS
In Millions



Based on results as reported in the Company's annual reports, unadjusted for poolings of interests.

BROADWAY-HALE STORES, INC.
AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEET

	February 3, 1973	January 29, 1972 Restated
Current assets		
Cash	$ 15,408,000	$ 12,611,000
Certificates of deposit	36,150,000	
Accounts receivable	127,327,000	120,458,000
Reimbursable property costs under sale and lease-back agreements	3,972,000	10,234,000
Merchandise inventories	177,254,000	149,393,000
Prepaid expenses	9,052,000	8,603,000
	369,163,000	301,299,000
Property and equipment	174,535,000	169,210,000
Investments	21,984,000	25,599,000
Total assets	**$565,682,000**	**$496,108,000**
Current liabilities		
Current installments on long term debt	$ 9,775,000	$ 13,860,000
Accounts payable and accrued expenses	80,381,000	68,295,000
Dividends payable	3,895,000	3,712,000
Current income taxes	20,281,000	7,473,000
Deferred income taxes	31,230,000	28,041,000
	145,562,000	121,381,000
Long term debt	119,558,000	95,688,000
Pensions and other long term liabilities	14,381,000	13,674,000
Equity of shareholders		
Preferred stock, $5 par value	9,923,000	10,064,000
Common stock, $5 par value	82,937,000	55,494,000
Other paid-in capital	103,308,000	129,375,000
Accumulated earnings	90,013,000	70,432,000
	286,181,000	265,365,000
Total liabilities and equity of shareholders	**$565,682,000**	**$496,108,000**

See accompanying Notes to Financial Statements

STATEMENT OF CURRENT EARNINGS

	Fifty-Three Weeks Ended Feb. 3, 1973	Fifty-Two Weeks Ended Jan. 29, 1972 Restated
Net sales	$931,049,000	$787,667,000
Costs and expenses		
Cost of goods sold	534,861,000	454,469,000
Selling, operating and administrative expenses	254,618,000	215,593,000
Taxes other than income taxes	25,460,000	21,403,000
Rentals of real property	22,293,000	16,966,000
Depreciation and amortization	13,464,000	11,732,000
Interest expense less interest income	9,432,000	9,814,000
	860,128,000	729,977,000
Earnings before income taxes	70,921,000	57,690,000
Income taxes	35,850,000	29,015,000
Net earnings	**$ 35,071,000**	**$ 28,675,000**
Per share of common stock	**$1.87**	**$1.59**
Per share of common stock assuming full dilution	**$1.74**	**$1.52**

See accompanying Notes to Financial Statements

BROADWAY-HALE STORES, INC.
AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF SHAREHOLDERS' EQUITY	Shares Issued		Par Value			
	Preferred Stock	Common Stock	Preferred Stock	Common Stock	Other Paid-In Capital	Accumulated Earnings
			Dollar Amounts in Thousands			
Balance January 30, 1971, restated	2,012,867	10,346,122	$10,064	$51,731	$100,141	$ 56,063
Net earnings						28,675
Cash dividends on common stock, \$.66⅔ per share (after giving effect to 1972 stock split)						(10,213)
Cash dividends on preferred stock, $2 per share						(4,093)
Sale of common stock		750,000		3,750	29,172	
Sale of common stock under employee stock options		2,500		12	62	
Conversion of preferred stock	(147)	164		1		
Balance January 29, 1972, restated	2,012,720	11,098,786	10,064	55,494	129,375	70,432
Net earnings						35,071
Cash dividends on common stock, $.69 per share						(11,375)
Cash dividends on preferred stock, $2 per share						(4,031)
Issued in 3 for 2 common stock split		5,386,876		26,934	(26,934)	(84)
Sale of common stock under employee stock options		54,325		272	963	
Conversion of preferred stock	(28,180)	47,346	(141)	237	(96)	
Balance February 3, 1973	**1,984,540**	**16,587,333**	**$ 9,923**	**$82,937**	**$103,308**	**$ 90,013**

At February 3, 1973 the aggregate liquidation preference of the outstanding preferred stock was $89,304,000.

See accompanying Notes to Financial Statements

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fifty-Three Weeks Ended Feb. 3, 1973	Fifty-Two Weeks Ended Jan. 29, 1972 Restated
Source of funds		
Net earnings	$ 35,071,000	$ 28,675,000
Depreciation and amortization	13,464,000	11,732,000
Deferred income taxes	2,548,000	5,907,000
Working funds provided from operations	51,083,000	46,314,000
Properties sold or to be sold under lease-back agreements	23,000,000	22,829,000
Issuance of long term notes	3,022,000	3,550,000
Sale of sinking fund debentures		35,000,000
Sale of convertible debentures	35,000,000	
Sale of capital stock	1,235,000	32,997,000
Funds previously reserved for investment	12,000,000	
Other sources	1,925,000	2,419,000
	127,265,000	143,109,000
Use of funds		
Cash dividends	15,406,000	14,306,000
Property additions	41,789,000	53,412,000
Payments on long term notes	14,152,000	13,781,000
Funds reserved for investment in Holt, Renfrew & Co., Limited		12,000,000
Excess of cost of purchased subsidiaries over equity in net assets	6,738,000	
Investment in Broadway-Hale Credit Corp.	983,000	928,000
Other uses	1,325,000	645,000
	80,393,000	95,072,000
Increase in working funds	**$ 46,872,000**	**$ 48,037,000**

Working funds consist of current assets less current liabilities excluding current deferred income tax applicable to installment sales.

See accompanying Notes to Financial Statements

BROADWAY-HALE STORES, INC.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

Summary of significant accounting policies:

BASIS OF REPORTING — The consolidated financial statements include the accounts of the Company and all subsidiaries other than Broadway-Hale Credit Corp. Intercompany items are eliminated and earnings of Broadway-Hale Credit Corp. before income taxes have been deducted from interest expense.

SALES — Profits on installment sales are taken into income at the time such sales are made. Net sales include sales of leased departments and credit service charges.

MERCHANDISE INVENTORIES—Merchandise inventories are stated generally at the lower of cost or market as determined by the retail method applied on a first-in, first-out basis.

PROPERTIES—Carrying costs, including interest and real estate taxes, are included in the cost of construction in progress and land held for future development. Maintenance and repairs are charged to income and renewals and betterments of a permanent nature are charged to the property and equipment accounts. The cost of assets sold or retired is eliminated from the property and equipment accounts, the accumulated depreciation is eliminated from the reserve accounts, and any gain or loss taken into income. Fully depreciated assets are charged against the related accumulated depreciation accounts although such assets may still be in service.

DEPRECIATION AND AMORTIZATION — Depreciation and amortization is provided on the straight-line method over the estimated useful lives of the various facilities or over the lives of the related leases if such periods are shorter.

DEFERRED CHARGES—Store opening and pre-operating costs are charged to selling, operating and administrative expense during the year of the store opening. The excess of the cost of purchased subsidiaries over the underlying equity at the date of acquisition is amortized over a period of 40 years.

INCOME TAXES—The Company provides currently for income taxes applicable to all items included in the earnings statement regardless of when such taxes are payable. Deferred taxes shown as a current liability result from income on installment sales which is deferred for tax purposes. Tax allocations related to noncurrent items are included in other long term liabilities. Income taxes are reduced for investment tax credits using the flow-through method.

PENSIONS — Retirement benefits are provided to employees of the Company and its subsidiaries under a number of pension and profit sharing plans. Profit sharing contributions and most pension costs are currently funded. Costs of pension and related profit sharing plans are computed under an accepted actuarial method and include amounts necessary to provide for current service costs, amortization of past service costs principally over a period of 40 years and interest on all unfunded amounts.

EARNINGS PER SHARE — Earnings per share of common stock are computed on the basis of the weighted average number of shares and dilutive stock options outstanding during the year after recognition of preferred dividend requirements. Fully diluted earnings per share of common stock are computed on the assumption that all of the outstanding convertible debentures and preferred stock were converted into common stock at the beginning of the year or later date of issuance, eliminating interest, net of tax, on the convertible debentures and preferred dividend requirements.

Business combinations: As of January 31, 1972, the Company purchased a Canadian retailer, Holt, Renfrew & Co., Limited and a related company for $14,100,000. The results of operations of these companies are included in the consolidated statement of earnings from the beginning of the fiscal year; pro forma consolidated results of operations for the prior fiscal year, assuming that these companies had been purchased at the beginning of that year, would reflect net sales of $816,719,000, net earnings of $29,517,000 and net earnings per share of common stock of $1.60.

In June 1972, the Company, through a newly formed subsidiary, merged with Bergdorf & Goodman Company by exchange of 337,500 shares of its common stock. This transaction has been accounted for as a pooling of interests and accordingly the financial statements have been restated to include the accounts of Bergdorf whose net sales and net earnings for 1971 were $32,224,000 and $21,000, respectively.

Accounts receivable:	February 3, 1973	January 29, 1972
Customer receivables	$202,035,000	$184,321,000
Other receivables	5,397,000	6,025,000
	207,432,000	190,346,000
Accounts sold to Broadway-Hale Credit Corp., net of retained equity of $8,527,000 and $7,429,000	76,740,000	66,861,000
Allowance for doubtful accounts	3,365,000	3,027,000
	80,105,000	69,888,000
	$127,327,000	**$120,458,000**

Property and equipment, at cost less accumulated depreciation and amortization:	February 3, 1973	January 29, 1972
Land	$ 14,934,000	$ 15,127,000
Buildings and improvements	94,419,000	95,940,000
Lease improvements	35,322,000	31,641,000
Fixtures and equipment	105,965,000	88,183,000
Construction in progress and land held for future development	10,079,000	13,508,000
	260,719,000	244,399,000
Accumulated depreciation and amortization	86,184,000	75,189,000
	$174,535,000	**$169,210,000**

BROADWAY-HALE STORES, INC.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—CONTINUED

Investments:

	February 3, 1973	January 29, 1972
Investment in Broadway-Hale Credit Corp.	$ 11,920,000	$ 10,937,000
Excess of cost of purchased subsidiaries over equity in net assets, less amortization	6,570,000	
Temporary investment reserved for the purchase of Holt, Renfrew & Co., Limited		12,000,000
Other investments, at cost	3,494,000	2,662,000
	$ 21,984,000	**$ 25,599,000**

Income taxes: Federal (including Canadian) and state income tax expense includes the income taxes of Broadway-Hale Credit Corp. and consists of:

	Fifty-Three Weeks Ended February 3, 1973	Fifty-Two Weeks Ended January 29, 1972
Taxes currently payable—		
Federal, net of investment credits of $900,000 and $350,000	$ 28,944,000	$ 20,226,000
State	4,358,000	2,882,000
	33,302,000	23,108,000
Deferred taxes—		
Federal	2,156,000	5,289,000
State	392,000	618,000
	2,548,000	5,907,000
	$ 35,850,000	**$ 29,015,000**

Long term debt: Debt maturing more than one year after the balance sheet date is comprised of:

	February 3, 1973	January 29, 1972
4%-4¾% Notes due 1974-84	$ 26,506,000	$ 31,464,000
5%-5¾% Notes due 1974-88	11,983,000	22,359,000
6%-7½% Notes due 1974-93	11,069,000	6,865,000
8¼% Sinking Fund Debentures due 1977-1996	35,000,000	35,000,000
Total senior debt	84,558,000	95,688,000
4¾% Convertible Subordinated Debentures due 1987	35,000,000	
	$119,558,000	**$ 95,688,000**

The notes payable at February 3, 1973 include $7,108,000 secured by property carried at $12,263,000. Principal maturities of the notes payable in each of the next five fiscal years are $9,775,000, $7,813,000, $3,713,000, $4,921,000 and $3,351,000, respectively.

The indenture related to the 8¼% Sinking Fund Debentures provides for a sinking fund for the retirement in May of each year beginning with 1977 of not less than $1,750,000 principal amount.

The 4¾% Convertible Subordinated Debentures are convertible into the Company's common stock at $41.50 per share after June 14, 1973.

During March 1973, arrangements were made by the Company to borrow up to an additional $35,000,000 for thirty years at 7½% interest to be secured by deeds of trust on certain of the Company's properties.

Pensions: The cost of pension and related profit sharing plans for the year ended February 3, 1973 was $4,650,000 and for the prior year was $4,230,000. The actuarially computed value of vested benefits under all plans, primarily for past service, exceeded the total of pension funds and accruals by approximately $5,100,000 at the most recent valuation dates.

Commitments and contingencies: Most of the department stores are occupied under leases which generally provide for fixed rentals, require payment of property taxes and insurance and are for terms of 30 years with renewal options at reduced rates. At February 3, 1973 the minimum rental on real property payable in each of the succeeding five years under existing long term leases is approximately $22,000,000. In addition, fixtures in some of the Company's stores are leased for periods up to 15 years; at February 3, 1973 the fixture rental payable in each of the following five years is approximately $2,800,000.

Several actions are pending against the Company in California in which damages are claimed on the theory that the Company's finance charges on retail installment accounts exceed legal limitations and violate contractual provisions. Similar actions have been brought against many oil companies and retail stores in California. Although claims under such actions are substantial in relation to the Company's net worth, in the opinion of counsel for the Company, the actions are without merit and any recovery that would materially affect the Company's financial condition is unlikely.

Working funds: The increases (decreases) in working funds by components were:

	Fifty-Three Weeks Ended Feb. 3, 1973	Fifty-Two Weeks Ended Jan. 29, 1972
Cash	$ 2,797,000	$ 2,122,000
Certificates of deposit	36,150,000	
Accounts receivable	6,869,000	26,647,000
Reimbursable property costs	(6,262,000)	(5,146,000)
Merchandise inventories	27,861,000	23,164,000
Prepaid expenses	449,000	2,193,000
Current installments on long term debt	4,085,000	(175,000)
Accounts payable and accrued expenses	(12,086,000)	(258,000)
Dividends payable	(183,000)	(203,000)
Current income taxes	(12,808,000)	(307,000)
Increase in working funds	**$ 46,872,000**	**$ 48,037,000**

BROADWAY-HALE STORES, INC.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—CONTINUED

Broadway-Hale Credit Corp.: Broadway-Hale Credit Corp. purchases certain accounts receivable of the Company from which all of its revenue is obtained, principally by discounts in amounts sufficient to cover its fixed charges one and one-half times. Broadway-Hale Credit Corp.'s earnings and assets and liabilities are summarized below:

	Fifty-Three Weeks Ended February 3, 1973	Fifty-Two Weeks Ended January 29, 1972
Current earnings		
Discount earned and interest income from Broadway-Hale Stores, Inc.	$ 6,069,000	$ 5,661,000
Interest expense	(4,024,000)	(3,742,000)
Income taxes	(1,062,000)	(991,000)
Net earnings	**$ 983,000**	**$ 928,000**

	February 3, 1973	January 29, 1972
Current assets		
Customer accounts purchased from Broadway-Hale Stores, Inc.	$ 85,267,000	$ 74,290,000
Amount withheld pending collection of customer accounts and unearned discount	(8,527,000)	(7,429,000)
Cash	411,000	178,000
Total assets	**$ 77,151,000**	**$ 67,039,000**
Current liabilities		
Notes payable	$ 13,850,000	$ 30,100,000
Accrued taxes and interest	1,381,000	1,002,000
	15,231,000	31,102,000
Long term notes payable, due $5,000,000 each year, 1975 through 1978, and $30,000,000 in 1979, interest ½ % above prime rate	50,000,000	25,000,000
Investment of Broadway-Hale Stores, Inc.		
Common stock, $1 par value, 10,000 shares authorized, issued and outstanding	10,000	10,000
Other paid-in capital	9,990,000	9,990,000
Accumulated earnings	1,920,000	937,000
	11,920,000	10,937,000
Total liabilities and investment of Broadway-Hale Stores, Inc.	**$ 77,151,000**	**$ 67,039,000**

Equity of shareholders: Authorized preferred stock consists of 5,000,000 shares, $5 par value, of which 2,012,867 shares were designated $2 Convertible Preferred Stock. Each share of the outstanding preferred stock provides for cumulative annual dividends of $2, is convertible at any time into 1.6875 shares of common stock, is subject to redemption on or after April 1, 1976 at $47, decreasing at the rate of $.50 a year to $45, and has a $45 involuntary liquidation preference.

On May 25, 1972, the shareholders of the Company, by approving Amended Articles of Incorporation, increased the authorized shares of common stock, $5 par value, from 20,000,000 to 40,000,000, and authorized a three-for-two split of the common stock, effective May 31, 1972. At February 3, 1973, 4,192,284 shares of the Company's common stock were reserved for issuance upon conversion of outstanding convertible securities and 683,700 shares were reserved under the employee stock option plan.

Under the stock option plan, key employees may be granted options for purchase of the common stock of the Company at not less than 100% of fair market value on the date of option grant. Options are exercisable after one year but not after five years from date of grant. During 1972, options for 75,500 shares were granted at prices from $33.06 to $35.38 per share. At February 3, 1973 options for 195,200 shares were outstanding of which options for 26,700 shares were exercisable.

Accumulated earnings of $90,013,000 at February 3, 1973 includes $74,555,000 which is available for cash dividends under terms of the Company's agreements relative to unsecured notes payable.

To the Directors and Shareholders of
Broadway-Hale Stores, Inc.

In our opinion, the accompanying balance sheet and the related statements of current earnings and shareholders' equity and of changes in financial position present fairly the financial position of Broadway-Hale Stores, Inc. and its consolidated subsidiaries at February 3, 1973 and January 29, 1972, and the results of their operations and the changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Los Angeles, California
March 28, 1973

Price Waterhouse & Co.

FIVE YEAR FINANCIAL SUMMARY

In thousands	1972	1971	1970	1969	1968
Sales	$931,049	$787,667	$680,475	$656,713	$603,678
Earnings					
Before income taxes	70,921	57,690	47,648	48,070	45,508
Federal and state income taxes	35,850	29,015	24,561	25,922	24,377
Net earnings	35,071	28,675	23,087	22,148	21,131
Per common share*					
Net earnings	1.87	1.59	1.36	1.33	1.26
Assuming full dilution	1.74	1.52	1.33	1.31	1.25
Dividends	.69	.67	.63	.59	.59
Depreciation and amortization	13,464	11,732	9,888	9,069	8,250
Capital expenditures	41,789	53,412	48,227	21,431	37,609
Year End Statistics					
Common shares outstanding*	16,587	16,479	15,014	15,014	15,014
Preferred shares outstanding	1,985	2,013	2,013	1,113	1,113
Number of common shareholders	10,085	9,665	9,184	9,160	9,036
Store area (square feet)	13,647	12,447	11,468	10,760	10,513
Number of employees	32,000	27,000	24,000	22,600	22,400

*Prior years adjusted for 3 for 2 stock split.

In thousands	Feb. 3, 1973	Jan. 29, 1972	Jan. 30, 1971	Jan. 31, 1970	Feb. 1, 1969
Assets					
Cash and equivalents	$ 51,558	$ 12,611	$ 9,710	$ 12,488	$ 10,760
Accounts receivable	204,067	187,319	170,677	165,972	149,289
Accounts receivable sold	(76,740)	(66,861)	(83,102)	(49,900)	(49,928)
Reimbursable property costs	3,972	10,234	15,380	8,722	3,047
Merchandise inventories	177,254	149,393	123,387	109,065	107,062
Prepaid expenses	9,052	8,603	6,206	6,985	6,293
Current assets	369,163	301,299	242,258	253,332	226,523
Property and equipment	174,535	169,210	149,853	126,673	127,761
Investments	21,984	25,599	12,753	2,777	4,098
	$565,682	$496,108	$404,864	$382,782	$358,382
Liabilities and equity					
Current liabilities	$145,562	$121,381	$110,660	$116,688	$102,081
Long term debt	119,558	95,688	70,919	84,128	87,943
Other long term liabilities	14,381	13,674	11,378	11,042	8,491
Equity of shareholders	286,181	265,365	211,907	170,924	159,867
	$565,682	$496,108	$404,864	$382,782	$358,382
Working funds	$254,831	$207,959	$154,664	$153,485	$137,975

BROADWAY-HALE STORES, INC.

DIRECTORS

EATON W. BALLARD, Executive Vice President of Broadway-Hale.

NORMAN BARKER, JR., Chairman of the Board of United California Bank.

ARDERN R. BATCHELDER, Vice President of Broadway-Hale and Chairman of the Emporium Capwell Division.

K. WADE BENNETT, Executive Vice President of Broadway-Hale

W. P. F. BRAWNER, Retired, former President of W. P. Fuller & Co.

EDWARD W. CARTER, Chairman of the Board of Broadway-Hale.

ROBERT Di GIORGIO, Chairman of the Board of DiGiorgio Corporation.

ANDREW GOODMAN, President of Bergdorf Goodman, Inc.

PRENTIS C. HALE, Chairman of the Executive Commitee of Broadway-Hale.

STANTON G. HALE, Chairman of the Board of Pacific Mutual Life Insurance Company.

PHILIP M. HAWLEY, President of Broadway-Hale.

J. HART LYON, Chairman of the Broadway Department Store Division

EDWARD S. MARCUS, Consultant

STANLEY MARCUS, Vice President of Broadway-Hale and Chairman of the Neiman-Marcus Division.

W. EARL MILLER, Consultant.

RUDOLPH A. PETERSON, Administrator of United Nations Development Programme.

FRANK H. SLOSS, Partner in law firm of Heller, Ehrman, White & McAuliffe.

E. HORNSBY WASSON, Chairman of the Board of Stanford Research Institute.

ROBERT G. WILHELM, President of the Emporium Capwell Division.

HONORARY DIRECTORS

R. GWIN FOLLIS
NEWTON J. HALE
CHARLES S. HOBBS
ROBERT A. HORNBY
WILSON MEYER
ROY L. SHURTLEFF
CHARLES S. THOMAS

OFFICERS

EDWARD W. CARTER, Chairman of the Board

PRENTIS C. HALE, Chairman of the Executive Committee

PHILIP M. HAWLEY, President

EATON W. BALLARD, Executive Vice President

K. WADE BENNETT, Executive Vice President

ARDERN R. BATCHELDER, Vice President

STANLEY MARCUS, Vice President

HOWARD A. CARVER, Vice President, Personnel

E. JOHN CALDECOTT, Vice President and Secretary

HOWARD N. WEST, Vice President and Treasurer

COMMON AND PREFERRED STOCK
Listed on
New York Stock Exchange
Pacific Stock Exchange
Ticker Symbol BHS

TRANSFER AGENTS
Security Pacific National Bank,
Los Angeles
Morgan Guaranty Trust Company
of New York

REGISTRARS
United California Bank, Los Angeles
The First National City Bank of New York

INDEPENDENT ACCOUNTANTS
Price Waterhouse & Co.

GENERAL COUNSEL
Brobeck, Phleger & Harrison, San Francisco

EXECUTIVE OFFICES
600 South Spring Street,
Los Angeles 90014

ANNUAL MEETING
The annual meeting of shareholders will be held at the office of the company in Los Angeles, California on Thursday, May 24, 1973.